State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA SINGLE AUDIT REPORT

For the Two Fiscal Years Ended June 30, 1987

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's report on Montana's Schedules of Federal Financial Assistance for each of the fiscal years ended June 30, 1986 and 1987, as well as Reports on Internal Controls and Legal Compliance, a Schedule of Questioned Costs, and Federal Issues. The Montana Comprehensive Annual Financial Report for each of the two fiscal years ended June 30, 1986 and 1987, and our reports thereon have been issued under separate covers.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

September 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our single audit report of the State of Montana for the two fiscal years ended June 30, 1987. This document contains the auditor's report on the State of Montana's Schedules of Federal Financial Assistance for each of the fiscal years ended June 30, 1986 and 1987. It also contains reports on the State of Montana's internal controls and legal compliance. The review of internal control, accounting procedures, and compliance for federal programs was conducted in accordance with generally accepted governmental auditing standards and Office of Management and Budget Circular A-128.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Questioned Costs and the Federal Issues section of this report. Most of the federal findings in this document were discussed in previously issued agency audit reports; however, findings 3-1, 3-2, 3-3, 35-1, and 37-1 have been updated for information obtained after the findings were originally issued and findings 22-3, 37-3, 37-5, 37-7, 37-11, and 37-16 are new. Management has responded to the audit findings, and the responses are included in the report following each finding. Unless implemented or no longer applicable, all prior federal findings are included in the Federal Issues section of this document.

We issued separate reports on the State of Montana general purpose financial statements for fiscal years 1985-86 and 1986-87. These reports are included in the State of Montana's Comprehensive Annual Financial Report issued under separate cover for each of the two fiscal years ended June 30, 1986 and 1987, and are available upon request.

Respectfully submitted,

Scott A. Seacat

Scott A. Seacat
Legislative Auditor

State of Montana

Office of the Legislative Auditor

SINGLE AUDIT REPORT

For the Two Fiscal Years Ended June 30, 1987

All financial-compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits into this audit report include: Joan Anderson, Jody Bisom, Mary Bryson, Jeane Carstensen, Laurie Evans, Pearl Highland, Victoria Hunthausen, Wayne Kedish, Jan Orsello, Jill Roullier, Vicki Schiller, Gary Trescott, Kathy Walsh, and Lisa Warburton.

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REPORT ON

AND

SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
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Performance Audit

REPORT ON SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1986 and 1987, and have issued our reports thereon dated October 31, 1986 and October 30, 1987, respectively. Our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standard for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office in 1981, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedules of Federal Financial Assistance by Federal Agency and Program are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Montana. Such information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, except for the effects of not including the 45 mill property tax levy in the general purpose financial statements for the fiscal year ending June 30, 1986, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Sincerely,

James Gillett, CPA
Deputy Legislative Auditor

June 23, 1988

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Department of Agriculture	
	Agriculture Research Service	
10.001	Agricultural Research-Basic and Applied Research	$ 635,721
10.003	Morrill-Nelson Funds for Food and Agricultural Higher Education	50,000
	Animal and Plant Health Inspection	
10.025	Plant and Animal Disease and Pest Control	59,028
	Agricultural Stabilization and Conservation Service	
10.063	Agricultural Conservation Program	12,957
10.064	Forestry Incentives Program	2,000
	Agricultural Marketing Service	
10.156	Federal-State Marketing Improvement Program	8,489
	Cooperative State Research Service	
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	675,498
10.206	Grants for Agricultural Research-Competitive Research Grants	23,068
	Agricultural Cooperative Service	
10.350	Technical Assistance to Cooperatives	475
	Food Safety and Inspection Service	
10.477	Meat and Poultry Inspection	18,000
	Extension Service	
10.500	Cooperative Extension Service	2,621,272
	Food and Distribution Service	
10.550	Food Distribution (Note 3)	11,678,399
10.551	Food Stamps (Note 4)	32,805,000
10.553	School Breakfast Program	716,348
10.555	National School Lunch Program	8,421,093
10.556	Special Milk Program for Children	51,899
10.557	Special Supplemental Food Program for Women, Infants, and Children	6,570,203
10.558	Child Care Food Program	2,585,272
10.559	Summer Food Service Program for Children	198,489
10.561	State Administrative Matching Grants for Food Stamp Program	3,845,783
10.564	Nutrition Education and Training Program	50,734
10.567	Needy Family Program	991,313
10.568	Temporary Emergency Food Assistance (Administrative Costs)	199,409
	Forest Service	
10.664	Cooperative Forestry Assistance	448,305
10.665	Schools and Roads-Grants to States	6,856,474

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Soil Conservation Service	
10.901	Resource Conservation and Development	$ 16,000
10.902	Soil and Water Conservation	28,981
	Miscellaneous	
10.999	Non-Major Grants (Note 8)	913,462
	TOTAL FOR AGENCY	$ 80,483,672
	Department of Commerce	
	Economic Development Administration	
11.302	Economic Development-Support for Planning Organizations	$ 40,830
11.303	Economic Development-Technical Assistance	67,092
	National Oceanic and Atmospheric Administration	
11.407	Interjurisdictional Fisheries Act of 1986	20,041
	National Telecommunications and Information Administration	
11.550	Public Telecommunications Facilities-Construction and Plan	3,640
	Miscellaneous	
11.999	Non-Major Grants (Note 8)	125,738
	TOTAL FOR AGENCY	$ 257,341
	Department of Defense	
	Department of the Army, Office of the Chief of Engineers	
12.105	Protection of Essential Highways, Highway Bridge Approaches, and Public Works	$ 27,302
	Miscellaneous	
12.999	Non-Major Grants (Note 8)	959,574
	TOTAL FOR AGENCY	$ 986,876
	Department of Health and Human Services	
	Public Health Service-I	
13.103	Food and Drug Administration-Research	$ 17,281
13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	154,316
13.217	Family Planning-Services	915,274
13.228	Indian Health Services-Health Management Development Program	5
13.268	Childhood Immunization Grants	190,973
13.283	Centers for Disease Control-Investigations and Technical Assistance	10,213
13.293	State Health Planning and Development Agencies	75,713
13.364	Nursing Student Loans	788,317

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Office of Human Development Services	
13.631	Administration on Developmental Disabilities-Special Projects	$ 357,935
13.632	Administration on Developmental Disabilities-University Affiliated Facilities	159,946
13.633	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	1,353,685
13.635	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,526,533
13.645	Child Welfare Services-State Grants	940,807
13.646	Work Incentive Program	517,445
13.648	Child Welfare Services Training Grants	95,788
13.658	Foster Care-Title IV-E	1,892,434
13.667	Social Services Block Grant	9,256,426
13.668	Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	83,733
13.669	Administration for Children, Youth and Families-Child Abuse and Neglect State Grants	238,068
	Health Care Financing Administration	
13.714	Medical Assistance Program	101,516,921
13.775	State Medicaid Fraud Control Units	26,394
13.777	State Survey and Certification of Health Care Providers and Suppliers	177,305
	Family Support Administration	
13.780	Assistance Payments-Maintenance Assistance	25,806,681
13.783	Child Support Enforcement	1,151,836
13.784	Child Support Enforcement Research	356,282
13.787	Refugee and Entrant Assistance-State Administered Programs	419,050
13.789	Low-Income Home Energy Assistance	11,068,251
13.790	Work Incentive Program	178,896
13.792	Community Services Block Grant	1,049,347
	Social Security Administration	
13.802	Social Security-Disability Insurance	2,451,080
13.807	Supplemental Security Income	22,797
	Public Health Service-II	
13.879	Medical Library Assistance	404
	Public Health Service-III	
13.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	72,500
13.991	Preventive Health and Health Services Block Grant	597,992
13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	2,217,058
13.994	Maternal and Child Health Services Block Grant	1,806,033
	Miscellaneous	
13.999	Non-Major Grants (Note 8)	2,241,965
	TOTAL FOR AGENCY	$170,735,684

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Department of Housing and Urban Development	
	Housing-Federal Housing Commissioner	
14.156	Lower Income Housing Assistance Program	$ 8,587,879
	Community Planning and Development	
14.228	Community Development Block Grant/State's Program	5,427,268
	Solar Energy and Energy Conservation Bank	
14.550	Solar Energy and Energy Conservation Bank	57,886
	Miscellaneous	
14.999	Non-Major Grants (Note 8)	56,742
	TOTAL FOR AGENCY	$ 14,129,775
	Department of the Interior	
	Bureau of Indian Affairs	
15.130	Indian Education-Assistance to Schools	$ 309,504
15.142	Self Determination Grants-Indian Tribal Governments	35,268
	Bureau of Land Management	
15.219	Wildlife Habitat Management Technical Assistance	44,217
15.221	Cooperative Agreements for Research in Public Lands Management	67,317
15.999	Mineral Leasing Royalties	23,433,021
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	612,893
15.252	Abandoned Mine Land Reclamation (AMLR) Program	6,813,207
	Bureau of Mines	
15.308	Grants for Mining and Mineral Resources and Research Institutes	217,086
	U.S. Fish and Wildlife Service	
15.605	Sport Fish Restoration	1,829,440
15.610	Wildlife Research Information	83,577
15.611	Wildlife Restoration	2,603,342
15.612	Endangered Species Conservation	113,244
	Geological Survey	
15.800	Geologic and Mineral Resource Surveys and Mapping	73,942
15.801	Cartographic Information	4,430
15.803	National Mapping and Surveys	14,705
15.804	Water Resources Investigations	17,878
15.805	Assistance to State Water Resources Research Institutes	39,841

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	National Park Service	
15.900	Disposal of Surplus Wildlife (Note 7)	$ 1,302
15.904	Historic Preservation Fund Grants-In-Aid	284,811
15.916	Outdoor Recreation-Acquisition, Development and Planning	702,342
	Miscellaneous	
15.999	Non-Major Grants (Note 8)	995,031
	TOTAL FOR AGENCY	$ 38,296,398
	Department of Justice	
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	$ 15,000
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	244,089
16.543	Missing Children's Assistance	10,270
	Bureau of Justice Statistics	
16.550	Criminal Justice Statistics Development	42
	Office of Justice Programs	
16.573	Criminal Justice Block Grants	263,255
16.575	Crime Victim Assistance	233,260
16.579	State and Local Narcotics Control Assistance	18,610
	Bureau of Prisons	
16.603	Corrections-Technical Assistance	6.467
	Miscellaneous	
16.999	Non-Major Grants (Note 8)	211,335
	TOTAL FOR AGENCY	$ 1,002,328
	Department of Labor	
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$ 515,473
	Employment and Training Administration	
17.203	Labor Certification for Alien Workers	32,012
17.207	Employment Service	5,608,395
17.225	Unemployment Insurance	8,278,039
17.245	Trade Adjustment Assistance-Workers	98,195
17.248	Employment and Training Research and Development Projects	37,204
17.249	Employment Services and Job Training-Pilot and Demonstration Programs	352,578
17.250	Job Training Partnership Act	10,645,300

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Occupational Safety and Health Administration	
17.500	Occupational Safety and Health	$ 102,659
	Mine Safety and Health Administration	
17.600	Mine Health and Safety Grants	36,919
17.601	Mine Health and Safety Counseling and Technical Assistance	17,175
	Office of the Assistant Secretary for Veteran's Employment	
17.801	Disabled Veterans Outreach Program	254,943
17.804	Local Veterans Employment Representative Program	350,702
	Miscellaneous	
17.999	Non-Major Grants (Note 8)	163,613
	TOTAL FOR AGENCY	$ 26,493,207
	Department of State	
	Office of Foreign Missions	
19.999	Miscellaneous Non-Major Grants (Note 8)	$ 6,123
	TOTAL FOR AGENCY	$ 6,123
	Department of Transportation	
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$ 202,027
	Federal Highway Administration	
20.205	Highway Planning and Construction	117,414,837
20.214	Highway Beautification-Control of Outdoor Advertising, and Control of Junkyards	113,142
20.215	Highway Training and Education	644
20.218	Motor Carrier Safety Assistance Program	256,177
	Federal Railroad Administration	
20.301	Railroad Safety	8,349
20.308	Local Rail Service Assistance	113,090
	Urban Mass Transportation Administration	
20.500	Urban Mass Transportation Capital Improvement Grants	232,274
20.505	Urban Mass Transportation Technical Studies Grants	167,620
20.507	Urban Mass Transportation Capital and Operating Assistance Formula Grants	352,849
	National Highway Traffic Safety Administration	
20.600	State and Community Highway Safety	1,262,016

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM		ASSISTANCE AMOUNT (Note 1)
	Research and Special Programs Administration		
20.700	Pipeline Safety		$ 25,721
	Office of the Secretary		
20.999	Miscellaneous Non-Major Grants (Note 8)		9,693
		TOTAL FOR AGENCY	$120,158,439
	Department of Treasury		
	Office of Revenue Sharing		
21.300	State and Local Government Fiscal Assistance		$ 187,525
		TOTAL FOR AGENCY	$ 187,525
	National Aeronautics and Space Administration		
43.999	Miscellaneous Non-Major Grants (Note 8)		$ 155,381
		TOTAL FOR AGENCY	$ 155,381
	National Foundation on the Arts and the Humanities		
	National Endowment for the Arts		
45.003	Promotion of the Arts-Arts in Education		$ 39,400
45.007	Promotion of the Arts-State Programs		328,000
45.015	Promotion of the Arts-Folk Arts		10,800
	National Endowment for the Humanities		
45.125	Promotion of the Humanities-Humanities Projects in Museums and Historical Organizations		5,882
	Institute of Museum Services		
45.301	Institute of Museum Services		19,549
	Miscellaneous		
45.999	Non-Major Grants (Note 8)		21,276
		TOTAL FOR AGENCY	$ 424,907
	National Science Foundation		
47.049	Mathematical and Physical Sciences		$ 4,401
47.064	College Science Instrumentation Program		6,315
47.999	Miscellaneous Non-Major Grants (Note 8)		1,954,045
		TOTAL FOR AGENCY	$ 1,964,761

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM		ASSISTANCE AMOUNT (Note 1)
	Small Business Administration		
59.037	Small Business Development Center		$ 396
59.999	Miscellaneous Non-Major Grants (Note 8)		6,861
		TOTAL FOR AGENCY	$ 7,257
	Tennessee Valley Authority		
62.999	Miscellaneous Non-Major Grants (Note 8)		$ 521
		TOTAL FOR AGENCY	$ 521
	Veterans Administration		
	Department of Medicine and Surgery		
64.015	Veterans State Nursing Home Care		$ 551,340
64.111	Veterans Educational Assistance		52,747
	Miscellaneous		
64.999	Non-Major Grants (Note 8)		1,898
		TOTAL FOR AGENCY	$ 605,985
	Environmental Protection Agency		
	Office of Air and Radiation		
66.001	Air Pollution Control Program Support		$ 628,822
	Office of Water		
66.418	Construction Grants for Wastewater Treatment Works		323,344
66.419	Water Pollution Control-State and Interstate Program Support		690,338
66.432	State Public Water System Supervision		322,849
66.438	Construction Management Assistance		9,044
66.454	Water Quality Management Planning		114,622
	Office of Research and Development		
66.507	Toxic Substances Research		502,664
	Office of Pesticides and Toxic Substances		
66.700	Pesticides Enforcement Program		177,521
	Office of Solid Waste and Emergency Response		
66.801	Hazardous Waste Management State Program Support		407,940
66.802	Hazardous Substance Response Trust Fund		970,540
66.804	State Underground Storage Tanks Program		334,911

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Miscellaneous	
66.999	Non-Major Grants (Note 8)	$ 401,936
	TOTAL FOR AGENCY	$ 4,884,531
	Action	
72.999	Miscellaneous Non-Major Grants (Note 8)	$ 21,512
	TOTAL FOR AGENCY	$ 21,512
	Department of Energy	
81.041	State Energy Conservation	$ 319,259
81.042	Weatherization Assistance for Low-Income Persons	1,719,982
81.048	Priorities and Allocations for Energy Programs and Projects	159,859
81.050	Energy Extension Service	147,109
81.052	Energy Conservation for Institutional Buildings	179,170
81.079	Biofuels and Municipal Waste Technology and Regional Programs	59,626
81.087	Renewable Energy Research and Development	2,478
81.999	Miscellaneous Non-Major Grants (Note 8)	3,870,859
	TOTAL FOR AGENCY	$ 6,458,342
	Federal Emergency Management Agency	
	Training and Fire Programs Directorate	
83.403	Emergency Management Institute-Field Training Program	$ 114,480
	State and Local Programs and Support	
83.503	Civil Defense-State and Local Emergency Management Assistance	592,187
83.505	State Disaster Preparedness Grants	54,661
83.508	Radiological Instrumentation	69,320
83.509	Facility Survey, Engineering and Development	34,811
83.511	Radiological Defense Planning and Development	40,335
83.512	State and Local Emergency Operating Centers	237,058
83.514	Population Protection Planning	81,965
83.516	Disaster Assistance	742,698
83.519	Hazard Mitigation Assistance	4,500
	TOTAL FOR AGENCY	$ 1,972,015
	Department of Education	
84.002	Adult Education-State-Administered Program	$ 468,788
84.003	Bilingual Education	205,225
84.004	Civil Rights Technical Assistance and Training	121,936
84.007	Supplemental Educational Opportunity Grants	760,505
84.008	Alcohol and Drug Abuse Education	8,228
84.010	Educationally Deprived Children-Local Educational Agencies	11,105,536
84.011	Migrant Education-Basic State Formula Grant Program	207,123

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Department of Education (continued)	
84.012	Educationally Deprived Children-State Administration	$ 218,004
84.013	Neglected and Delinquent Children	121,711
84.023	Handicapped-Innovation and Development	7,651
84.024	Handicapped Early Childhood Education	285,185
84.025	Handicapped Education-Deaf-Blind Centers	68,763
84.027	Handicapped-State Grants	4,101,825
84.029	Handicapped Education-Special Education Personnel Development	307,929
84.031	Higher Education-Institutional Aid	482,987
84.032	Higher Education Act Insured Loans (Note 6)	36,294,778
84.033	College Work-Study Program	1,941,392
84.034	Library Services	422,266
84.035	Interlibrary Cooperation and Resource Sharing	105,679
84.038	Perkins Loans (Note 5)	15,447,993
84.042	Student Support Services	426,716
84.044	Talent Search	151,400
84.047	Upward Bound	233,003
84.048	Vocational Education-Basic Grants to States	3,464,686
84.049	Vocational Education-Consumer and Homemaking Education	101,436
84.053	Vocational Education-State Councils	120,274
84.055	Higher Education-Cooperative Education	71,224
84.062	Indian Education-Adult Indian Education	106,964
84.063	Pell Grant Program	13,013,150
84.064	Higher Education-Veterans Education Outreach Program	4,663
84.069	Grants to States for State Student Incentives	272,724
84.073	National Diffusion Network	50,592
84.083	Women's Educational Equity	118,977
84.086	Handicapped Education-Severely Handicapped Program	99,186
84.087	Indian Education-Fellowships for Indian Students	13,467
84.091	Strengthening Research Library Resources	53,679
84.099	Bilingual Vocational Instructor Training	119,600
84.116	Funds for the Improvement of Postsecondary Education	49,495
84.123	Law-Related Education	6,915
84.126	Rehabilitation Services-Basic Support	4,791,988
84.129	Rehabilitation Training	6,583
84.146	Transition Program for Refugee Children	11,321
84.151	Improving School Programs-State Block Grants	2,273,957
84.153	Business and International Education	4,163
84.154	Public Library Construction	66,486
84.164	State Grants for Strengthening the Skills of Teachers and Instruction	208,289
84.168	Secretary's Discretionary Program for Mathematics, Science, Computer Learning	63,233
84.176	Paul Douglas Teacher Scholarships	34,155
84.185	Robert C. Byrd Honors Scholarships	433
84.999	Miscellaneous Non-Major Grants (Note 8)	109,147
	TOTAL FOR AGENCY	$ 98,731,410

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

CFDA#	FEDERAL AGENCY AND PROGRAM		ASSISTANCE AMOUNT (Note 1)
	Harry S. Truman Scholarship Foundation		
85.001	Harry S. Truman Scholarship Program		$ 34,594
		TOTAL FOR AGENCY	$ 34,594
	National Archives and Records Administration		
89.999	Miscellaneous Non-Major Grants (Note 8)		$ 1,030
		TOTAL FOR AGENCY	$ 1,030
	Agency for International Development		
**.999	Miscellaneous Non-Major Grants (Notes 7 & 8)		$ 228,738
		TOTAL FOR AGENCY	$ 228,738
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR FISCAL YEAR 1987			$568,228,352

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT
	Department of Agriculture	
	Agricultural Research Service	
10.001	Agricultural Research-Basic and Applied Research	$ 512,103
10.003	Morrill-Nelson Funds for Food and Agricultural Higher Education	50,000
	Animal and Plant Health Inspection	
10.025	Plant and Animal Disease and Pest Control	52,597
	Agricultural Stabilization and Conservation Service	
10.063	Agricultural Conservation Program	13,400
10.064	Forestry Incentives Program	2,000
	Agricultural Marketing Service	
10.156	Federal-State Marketing Improvement Program	37,849
	Cooperative State Research Service	
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	1,767,027
10.206	Grants for Agricultural Research-Competitive Research Grants	13,504
	Economic Research Service	
10.250	Agricultural and Rural Economic Research	19,421
	Food Safety and Inspection Service	
10.477	Meat and Poultry Inspection	18,000
	Extension Service	
10.500	Cooperative Extension Service	3,073,026
	Food and Nutrition Service	
10.550	Food Distribution (Note 3)	10,142,185
10.551	Food Stamps (Note 4)	31,508,409
10.553	School Breakfast Program	669,210
10.555	National School Lunch Program	7,687,106
10.556	Special Milk Program for Children	51,869
10.557	Special Supplemental Food Program for Women, Infants, and Children	5,880,738
10.558	Child Care Food Program	2,413,790
10.559	Summer Food Service Program for Children	138,200
10.560	State Administrative Expenses for Child Nutrition	325,633
10.561	State Administrative Matching Grants for Food Stamp Program	3,190,805
10.567	Needy Family Program	1,005,125
10.568	Temporary Emergency Food Assistance (Administrative Costs)	199,476

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT
	Forest Service	
10.664	Cooperative Forestry Assistance	$ 462,944
10.665	Schools and Roads-Grants to States	5,956,773
	Soil Conservation Service	
10.901	Resource Conservation and Development	15,600
	Miscellaneous	
10.999	Non-Major Grants (Note 8)	1,225,977
	TOTAL FOR AGENCY	$ 76,432,767
	Department of Commerce	
	Economic Development Administration	
11.302	Economic Development-Support for Planning Organizations	$ 39,170
	National Oceanic and Atmospheric Administration	
11.407	Interjurisdictional Fisheries Act of 1986	15,287
	National Telecommunications and Information Administration	
11.550	Public Telecommunications Facilities-Construction and Plan	74,550
	Miscellaneous	
11.999	Non-Major Grants (Note 8)	86,950
	TOTAL FOR AGENCY	$ 215,957
	Department of Defense	
	Department of the Army, Office of the Chief of Engineers	
12.105	Protection of Essential Highways, Highway Bridge Approaches, and Public Works	$ 42,656
	Miscellaneous	
12.999	Non-Major Grants (Note 8)	935,844
	TOTAL FOR AGENCY	$ 978,500
	Department of Health and Human Services	
	Public Health Service-I	
13.103	Food and Drug Administration-Research	$ 26,658
13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	3,784
13.217	Family Planning-Services	930,467
13.268	Childhood Immunization Grants	176,645

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Public Health Service-I (continued)	
13.283	Centers for Disease Control-Investigations and Technical Assistance	$ 10,910
13.293	State Health Planning and Development Agencies	218,685
13.364	Nursing Student Loans	761,943
13.375	Minority Biomedical Research Support	210,041
	Office of Human Development Services	
13.631	Administration on Developmental Disabilities-Special Projects	298,353
13.632	Administration on Developmental Disabilities-University Affiliated Facilities	145,978
13.633	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	1,471,034
13.635	Special Programs for the Aging-Title III, Part C-Nutrition Services	1,973,547
13.645	Child Welfare Services-State Grants	904,026
13.646	Work Incentive Program	733,971
13.648	Child Welfare Services Training Grants	79,833
13.658	Foster Care-Title IV-E	1,491,063
13.667	Social Services Block Grant	9,874,768
13.668	Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	78,106
13.669	Administration for Children, Youth and Families-Child Abuse and Neglect State Grants	63,336
	Health Care Financing Administration	
13.714	Medical Assistance Program	78,473,318
13.775	State Medicaid Fraud Control Units	100,653
13.777	State Survey and Certification of Health Care Providers and Supplier	131,941
	Family Support Administration	
13.780	Assistance Payments-Maintenance Assistance	23,537,380
13.783	Child Support Enforcement	1,067,405
13.784	Child Support Enforcement Research	301,554
13.787	Refugee and Entrant Assistance-State Administered Programs	427,942
13.789	Low-Income Home Energy Assistance	11,343,562
13.790	Work Incentive Program	284,561
13.792	Community Services Block Grant	1,266,967
	Social Security Administration	
13.802	Social Security-Disability Insurance	2,540,130
13.807	Supplemental Security Income	22,489
13.879	Medical Library Assistance	3,596

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Public Health Service-III	
13.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	75,828
13.991	Preventive Health and Health Services Block Grant	602,126
13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	2,409,110
13.994	Maternal and Child Health Services Block Grant	$ 1,856,422
13.995	Adolescent Family Life-Demonstration Projects	29,725
	Miscellaneous	
13.999	Non-Major Grants (Note 8)	1,442,672
	TOTAL FOR AGENCY	$145,370,529
	Department of Housing and Urban Development	
	Housing-Federal Housing Commissioner	
14.156	Lower Income Housing Assistance Program	$ 7,501,933
	Community Planning and Development	
14.228	Community Development Block Grant/State's Program	5,865,450
	Solar Energy and Energy Conservation Bank	
14.550	Solar Energy and Energy Conservation Bank	57,163
	Miscellaneous	
14.999	Non-Major Grants (Note 8)	56,742
	TOTAL FOR AGENCY	$ 13,481,288
	Department of the Interior	
	Bureau of Indian Affairs	
15.130	Indian Education-Assistance to Schools	$ 362,597
15.142	Self Determination Grants-Indian Tribal Governments	40,013
15.143	Training and Technical Assistance-Indian Tribal Governments	26,230
	Bureau of Land Management	
15.219	Wildlife Habitat Management Technical Assistance	69,083
15.221	Cooperative Agreements for Research in Public Lands Management	48,772
15.999	Mineral Leasing Royalties	20,207,421
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	618,427
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,437,430

STATE OF MONTANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Bureau of Mines	
15.308	Grants for Mining and Mineral Resources and Research Institutes	214,283
	U.S. Fish and Wildlife Service	
15.605	Sport Fish Restoration	1,579,688
15.610	Wildlife Research Information	47,166
15.611	Wildlife Restoration	3,705,180
15.612	Endangered Species Conservation	141,125
	Geological Survey	
15.800	Geologic and Mineral Resource Surveys and Mapping	93,766
15.801	Cartographic Information	2,549
15.803	National Mapping and Surveys	904
15.804	Water Resources Investigations	36,937
15.805	Assistance to State Water Resources Research Institutes	118,008
	National Park Service	
15.900	Disposal of Surplus Wildlife (Note 7)	14,690
15.904	Historic Preservation Fund Grants-In-Aid	423,897
15.916	Outdoor Recreation-Acquisition, Development and Planning	549,307
	Miscellaneous	
15.999	Non-Major Grants (Note 8)	919,278
	TOTAL FOR AGENCY	$ 33,656,751
	Department of Justice	
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory	$ 7,000
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	253,727
	Office of Justice Programs	
16.573	Criminal Justice Block Grants	348,020
16.575	Crime Victim Assistance	178,740
	Bureau of Prisons	
16.603	Corrections-Technical Assistance	5,537
	Miscellaneous	
16.999	Non-Major Grants (Note 8)	209,493
	TOTAL FOR AGENCY	$ 1,002,517

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT
	Department of Labor	
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$ 431,436
	Employment and Training Administration	
17.203	Labor Certification for Alien Workers	27,772
17.207	Employment Service	5,519,795
17.225	Unemployment Insurance	9,049,152
17.246	Employment and Training Assistance-Dislocated Workers	699,356
17.248	Employment and Training Research and Development Projects	40,070
17.250	Job Training Partnership Act	10,261,696
	Occupational Safety and Health Administration	
17.500	Occupational Safety and Health	91,312
	Mine Safety and Health Administration	
17.600	Mine Health and Safety Grants	37,149
17.601	Mine Health and Safety Counseling and Technical Assistance	55,304
	Office of Assistant Secretary for Veterans' Employment	
17.801	Disabled Veterans Outreach Program	215,868
17.804	Local Veterans Employment Representative Program	365,845
	Miscellaneous	
17.999	Non-Major Grants (Note 8)	191,203
	TOTAL FOR AGENCY	$ 26,985,958
	Department of Transportation	
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$ 123,674
	Federal Highway Administration	
20.205	Highway Planning and Construction	128,804,590
20.214	Highway Beautification-Control of Outdoor Advertising, and Control of Junkyards	275,717
20.215	Highway Training and Education	2,313
20.218	Motor Carrier Safety Assistance Program	154,572
	Federal Railroad Administration	
20.301	Railroad Safety	9,100
20.308	Local Rail Service Assistance	150,201

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT
	Urban Mass Transportation Administration	
20.500	Urban Mass Transportation Capital Improvement Grants	$ 232,890
20.505	Urban Mass Transportation Technical Studies Grants	143,166
20.507	Urban Mass Transportation Capital and Operating Assistance Formula Grants	375,997
	National Highway Traffic Safety Administration	
20.600	State and Community Highway Safety	1,313,072
	Research and Special Programs Administration	
20.700	Pipeline Safety	20,934
	Maritime Administration	
20.811	Research and Development Assistance	13,418
	Office of the Secretary	
20.999	Miscellaneous Non-Major Grants (Note 8)	9,902
	TOTAL FOR AGENCY	$131,629,546
	Department of Treasury	
	Office of Revenue Sharing	
21.300	State and Local Government Fiscal Assistance	$ 3,000
	TOTAL FOR AGENCY	$ 3,000
	National Aeronautics and Space Administration	
43.999	Miscellaneous Non-Major Grants (Note 8)	$ 178,476
	TOTAL FOR AGENCY	$ 178,476
	National Foundation on the Arts and the Humanities	
	National Endowment for the Arts	
45.003	Promotion of the Arts-Arts in Education	$ 45,650
45.007	Promotion of the Arts-State Programs	337,700
	National Endowment for the Humanities	
45.125	Promotion of the Humanities-Humanities Projects in Museums and Historical Organizations	38,598

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM		ASSISTANCE AMOUNT
	Institute of Museum Services		
45.301	Institute of Museum Services		$ 7,150
	Miscellaneous		
45.999	Non-Major Grants (Note 8)		169,236
		TOTAL FOR AGENCY	$ 598,334
	National Science Foundation		
47.069	Research Initiation and Improvement		$ 3,390
47.999	Miscellaneous Non-Major Grants (Note 8)		1,849,632
		TOTAL FOR AGENCY	$ 1,853,022
	Small Business Administration		
59.037	Small Business Development Center		$ 60
59.999	Miscellaneous Non-Major Grants (Note 8)		15,232
		TOTAL FOR AGENCY	$ 15,292
	Tennessee Valley Authority		
62.999	Miscellaneous Non-Major Grants (Note 8)		$ 12,929
		TOTAL FOR AGENCY	$ 12,929
	Veterans Administration		
	Department of Medicine and Surgery		
64.015	Veterans State Nursing Home Care		$ 520,449
	Department of Veterans Benefits		
64.111	Veterans Educational Assistance		60,683
	Miscellaneous		
64.999	Non-Major Grants (Note 8)		3,133
		TOTAL FOR AGENCY	$ 584,265
	Environmental Protection Agency		
	Office of Air and Radiation		
66.001	Air Pollution Control Program Support		$ 629,241

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM		ASSISTANCE AMOUNT (Note 1)
	Office of Water		
66.418	Construction Grants for Wastewater Treatment Works		$ 334,525
66.419	Water Pollution Control-State and Interstate Program Support		630,475
66.432	State Public Water System Supervision		314,657
66.454	Water Quality Management Planning		133,840
	Office of Research and Development		
66.507	Toxic Substances Research		489,609
	Office of Pesticides and Toxic Substances		
66.700	Pesticides Enforcement Program		178,806
	Office of Solid Waste and Emergency Response		
66.801	Hazardous Waste Management State Program Support		254,793
66.802	Hazardous Substance Response Trust Fund		1,087,952
66.804	State Underground Storage Tanks Program		131,758
	Miscellaneous		
66.999	Non-Major Grants (Note 8)		231,867
		TOTAL FOR AGENCY	$ 4,417,523
	Action		
72.999	Miscellaneous Non-Major Grants (Note 8)		$ 37,495
		TOTAL FOR AGENCY	$ 37,495
	Department of Energy		
81.041	State Energy Conservation		$ 581,243
81.042	Weatherization Assistance for Low-Income Persons		1,715,368
81.048	Priorities and Allocations for Energy Programs and Projects		223,654
81.050	Energy Extension Service		168,795
81.052	Energy Conservation for Institutional Buildings		196,072
81.079	Biofuels and Municipal Waste Technology and Regional Programs		71,365
81.087	Renewable Energy Research and Development		34,039
81.999	Miscellaneous Non-Major Grants (Note 8)		1,718,255
		TOTAL FOR AGENCY	$ 4,708,791
	United States Information Agency		
82.999	Miscellaneous Non-Major Grants (Note 8)		$ 1,513
		TOTAL FOR AGENCY	$ 1,513

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Federal Emergency Management Agency	
	Training and Fire Programs Directorate	
83.403	Emergency Management Institute-Field Training Program	$ 103,579
	State and Local Programs and Support	
83.503	Civil Defense-State and Local Emergency Management Assistance	544,698
83.504	Other State and Local Direction, Control and Warning	3,958
83.505	State Disaster Preparedness Grants	29,134
83.508	Radiological Instrumentation	58,028
83.509	Facility Survey, Engineering and Development	34,978
83.511	Radiological Defense Planning and Development	38,960
83.512	State and Local Emergency Operating Centers	387,437
83.513	State and Local Warning and Communication Systems	7,949
83.514	Population Protection Planning	73,294
83.516	Disaster Assistance	1,114,591
83.519	Hazard Mitigation Assistance	5,500
	Miscellaneous	
83.999	Non-Major Grants (Note 8)	12,000
	TOTAL FOR AGENCY	$ 2,414,106
	Department of Education	
84.002	Adult Education-State-Administered Program	$ 448,885
84.003	Bilingual Education	214,921
84.004	Civil Rights Technical Assistance and Training	21,293
84.007	Supplemental Educational Opportunity Grants	814,138
84.010	Educationally Deprived Children-Local Educational Agencies	10,854,762
84.011	Migrant Education-Basic State Formula Grant Program	401,163
84.012	Educationally Deprived Children-State Administration	253,248
84.013	Neglected and Delinquent Children	118,092
84.023	Handicapped-Innovation and Development	183,041
84.024	Handicapped Early Childhood Education	246,818
84.025	Handicapped Education-Deaf-Blind Centers	64,848
84.027	Handicapped-State Grants	3,817,944
84.029	Handicapped Education-Special Education Personnel Development	179,746
84.031	Higher Education-Institutional Aid	146,852
84.032	Higher Education Act Insured Loans (Note 6)	36,332,415
84.033	College Work-Study Program	2,145,182
84.034	Library Services	398,624
84.035	Interlibrary Cooperation and Resource Sharing	112,462
84.038	Perkins Loans (Note 5)	14,745,294
84.042	Student Support Services	467,510
84.044	Talent Search	157,797

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

CFDA#	FEDERAL AGENCY AND PROGRAM	ASSISTANCE AMOUNT (Note 1)
	Department of Education (continued)	
84.047	Upward Bound	$ 312,080
84.048	Vocational Education-Basic Grants to States	2,580,419
84.053	Vocational Education-State Councils	83,956
84.055	Higher Education-Cooperative Education	113,470
84.063	Pell Grant Program	13,188,581
84.064	Higher Education-Veterans Education Outreach Program	5,203
84.069	Grants to States for State Student Incentives	266,321
84.073	National Diffusion Network	58,441
84.083	Women's Educational Equity	63,897
84.086	Handicapped Education-Severely Handicapped Program	130,867
84.087	Indian Education-Fellowships for Indian Students	22,599
84.091	Strengthening Research Library Resources	55,775
84.099	Bilingual Vocational Instructor Training	206,995
84.116	Funds for the Improvement of Postsecondary Education	100,625
84.123	Law-Related Education	17,669
84.126	Rehabilitation Services-Basic Support	4,347,194
84.129	Rehabilitation Training	91,883
84.146	Transition Program for Refugee Children	4,852
84.151	Improving School Programs-State Block Grants	2,404,564
84.153	Business and International Education	25,843
84.154	Public Library Construction	162,580
84.161	Client Assistance for Handicapped Individuals	71,000
84.164	State Grants for Strengthening the Skills of Teachers and Instruction	179,891
84.168	Secretary's Discretionary Program for Mathematics, Science, Computer Learning	136,165
84.999	Miscellaneous Non-Major Grants (Note 8)	86,260
	TOTAL FOR AGENCY	$ 96,842,165
	Harry S. Truman Scholarship Foundation	
85.001	Harry S. Truman Scholarship Program	$ 34,774
	TOTAL FOR AGENCY	$ 34,774
	National Archives and Records Administration	
89.003	National Historical Publications and Records Grants	$ 14,685
89.999	Miscellaneous Non-Major Grants (Note 8)	4,445
	TOTAL FOR AGENCY	$ 19,130
	Agency for International Development	
**.999	Miscellaneous Non-Major Grants (Notes 7 & 8)	$ 153,163
	TOTAL FOR AGENCY	$ 153,163
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR FISCAL YEAR 1986		$541,627,791

STATE OF MONTANA
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1987 AND 1986

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Except as documented in notes 3, 4, 5, and 6 below, the assistance amounts presented on the accompanying Schedules of Federal Financial Assistance of the State of Montana are expenditures recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred.

Note 2 - MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

In accordance with the criteria established by P.L. 98-502 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as any federal program having assistance in Montana exceeding $3 million for the fiscal year ended June 30, 1987 or 1986.

Note 3 - FOOD DISTRIBUTION PROGRAM (See pages 2 and 13.)

The amount reported represents the dollar value of food commodities distributed to eligible recipients during the year. The value of the commodities is determined by the current values provided by the United States Department of Agriculture.

Note 4 - FOOD STAMPS PROGRAM (See pages 2 and 13.)

The amount reported is the face amount of the food stamps issued by the state to eligible recipients.

Note 5 - PERKINS LOANS PROGRAM (See pages 11 and 22.)

The amount reported represents the amount of loans outstanding at June 30 ($15,318,005 in 1987 and $14,628,850 in 1986) and administrative costs expended for the fiscal year ended June 30 ($129,988 in 1987 and $116,444 in 1986).

Note 6 - HIGHER EDUCATION ACT INSURED LOANS (See pages 11 and 22.)

The Commissioner of Higher Education (CHE) calculated the amounts for Higher Education Act Insured on a statewide basis. The amount reported represents the amount of new loans guaranteed by CHE during the year plus administrative expenses.

Note 7 - SUBCONTRACTS (See pages 6, 12, 17, and 23.)

Montana State University (MSU) and Eastern Montana College (EMC) received federal monies subcontracted through the University of California-Davis and Rutgers University, respectively. University of California-Davis received these funds from the Agency for International Development. MSU expended $82,557 in fiscal year 1986-87 and $62,529 in fiscal year 1985-86. Rutgers University received these federal funds from the Department of the Interior's National Park Service. EMC expended $1,302 in fiscal year 1986-87 and $14,690 in fiscal year 1985-86.

Note 8 - CFDA #

The CFDA # assigned for each federal program listed in the Schedules of Federal Financial Assistance was based upon the December 1987 Catalog of Federal Domestic Assistance. Programs not assigned a CFDA # in the December 1987 Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency from which the state received the assistance. There are no CFDA numbers assigned to federal assistance from the Agency for International Development.

REPORT ON INTERNAL CONTROLS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

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MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

REPORT ON INTERNAL CONTROLS

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1986 and 1987, and have issued our reports thereon dated October 31, 1986 and October 30, 1987, respectively. As part of each examination, we made a study and evaluation of the internal control systems, including applicable internal administrative controls used in administering federal financial assistance programs and internal accounting controls, to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office in 1981; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal administrative controls used in administering federal financial assistance programs and internal accounting controls in the following categories:

Administrative

General Requirements
- Political Activity
- Davis-Bacon Act
- Civil Rights
- Cash Management
- Relocation Assistance and Real Property Acquisition
- Federal Financial Reports

Specific Requirements
- Types of Services
- Eligibility
- Matching Level of Effort
- Reporting
- Cost Allocation
- Special Requirements
- Monitoring Subrecipients

Accounting

Cash	Payroll
Revenue/Receivables	Inventory
Expenditures/Payables	Property, Plant and Equipment
Investments	Central Data Processing

Our study included all of the applicable control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements, and to evaluate the system used in administering federal financial assistance programs. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal administrative controls used in administering federal financial assistance programs and the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

During each of the years ended June 30, 1986 and June 30, 1987, the State of Montana expended 86 percent of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Montana, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Montana did not extend beyond this preliminary review phase.

The management of the State of Montana is responsible for establishing and maintaining internal control systems, including those used in administering federal financial assistance programs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal accounting

control systems are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting control, or administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purposes described in paragraphs two, three, and four would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the system of internal accounting control of the State of Montana taken as a whole or on any of the categories of controls identified in the first paragraph. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Montana. Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

Our study and evaluation disclosed no condition that we believe results in more than relatively low risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements of the State of Montana may occur and not be detected within a timely period. However, our study and evaluation and our examination disclosed conditions concerning the Montana Department of Labor and Industry's federal assistance accounting and unemployment benefit bank account that we believe result in more than a relatively low risk that errors or irregularities in amounts that

would be material to a federal financial assistance program may occur and not be detected within a timely period. These conditions are discussed in the Federal Issues section of this document at 37-1 and 37-6, respectively.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our examination of the general purpose financial statements for each of the fiscal years ended June 30, 1986 and 1987, and (2) our examination and review of the State of Montana's compliance with laws and regulations' noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the general purpose financial statements dated October 31, 1986 and October 30, 1987, and on the State of Montana's compliance with laws and regulations dated June 23, 1988.

This report is intended solely for the use of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

June 23, 1988

REPORT ON LEGAL COMPLIANCE

AND

SCHEDULE OF QUESTIONED FEDERAL COSTS

STATE OF MONTANA

Office of the Legislative Auditor

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REPORT ON LEGAL COMPLIANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1986 and 1987, and have issued our reports thereon dated October 31, 1986 and October 30, 1987. Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office in 1981; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the State of Montana is responsible for the state's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal financial assistance programs. We also selected and tested other transactions and records of the entity. The purpose of our testing of transactions and records was to obtain reasonable assurance that the State of Montana had, in all material respects, administered major programs, and executed the tested non-major program transactions and other tested transactions, in compliance with federal and state laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures and on the general purpose financial statements of the State of Montana.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are discussed in the Federal Issues section of this report. All costs we questioned are identified in the accompanying Schedule of Questioned Costs. The ultimate resolution of those instances of noncompliance could not have a material effect on the allowability of expenditures of the related major federal assistance programs.

In our opinion, for the two fiscal years ended June 30, 1987, the State of Montana administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that, for the transactions and records tested, the State of Montana complied with the laws and regulations referred to in the second paragraph of our report, except as noted in the accompanying Schedule of Questioned Costs and the following Federal Issues section of this report. Our testing was more limited than would be necessary to express an opinion on whether the State of Montana administered its nonmajor federal financial assistance programs in compliance, in all material respects, with those laws and regulations with which we believe noncompliance could have a material effect on the allowability of program expenditures. Also, the results of our tests indicate that for the items tested, the State of Montana complied with those provisions of laws and regulations noncompliance with which could have a material effect on the general purpose financial statements. However, with respect to transactions and records not tested by us, nothing came to our attention to indicate the State of Montana had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

June 23, 1988

STATE OF MONTANA

SCHEDULE OF QUESTIONED COSTS

CFDA #[1]	PROGRAM NAME	STATE AGENCY	AMOUNT QUESTIONED	FINDING REFERENCES[2]
10.555M	School Food	Office of Public Instruction	$ 332.00	3-5
10.555M	School Food	Montana Youth Treatment Center	30,113.00	35-1
13.714M	Medicaid	Department of Social and Rehabilitative Services	500,000.00	39-9
14.156M	Lower Income Housing	Department of Commerce	1,660.00	36-1
17.250M	Job Training Partnership Act	Department of Labor and Industry	82,353.76	37-2
20.205M	Highway Planning and Construction	Department of Highways	11.60	23-2
20.600N	State and Community Highway Safety	Department of Justice	177,448.00	9-1
45.007M	National Endowment of the Arts Basic Grant	Montana Arts Council	3,850.00	19-1
81.999N	Bees Monitor Trace Elements	University of Montana	51.00	12-6
84.010M	ECIA Chapter I	Montana School for the Deaf and Blind	242.00	18-1
84.032M	Guaranteed Student Loan	University of Montana	2,111.00	12-3
84.032M	Guaranteed Student Loan	Northern Montana College	2,000.00	16-2
84.032M	Guaranteed Student Loan	Western Montana College	82.00	17-1
84.033N	College Work Study	Butte Vocational-Technical Center	2,127.00	5-3
84.033N	College Work Study	Helena Vocational-Technical Center	272.00	7-3
84.033N	College Work Study	Western Montana College	9,289.00	17-2
84.063M	Pell	Butte Vocational-Technical Center	6,437.00	5-1
84.063M	Pell	Great Falls Vocational-Technical Center	1,400.00	6-2
84.063M	Pell	Helena Vocational-Technical Center	1,060.00	7-1
84.063M	Pell	Helena Vocational-Technical Center	377.00	7-2
84.063M	Pell	Missoula Vocational-Technical Center	122.00	8-1
84.063M	Pell	Montana State University	228.00	13-4
84.063M	Pell	Eastern Montana College	1,900.00	15-3
84.063M	Pell	Northern Montana College	6,603.00	16-2
84.151N	ECIA Chapter II Block Grant	Office of Public Instruction	527,600.00	3-2
TOTAL QUESTIONED COSTS IN THIS SINGLE AUDIT REPORT			$1,357,669.36	

1 The five digit CFDA # is explained in Note 8 on page 25. The letter following the CFDA # indicates whether the federal financial assistance program was a major (M) program, as defined in Note 2 on page 24, or a nonmajor (N) program.

2 Finding references are to federal issue numbers found in the left margin of the following Federal Issues section of this document. The federal issues referenced contain information regarding the periods of time and procedures used to compute the amounts questioned.

FEDERAL ISSUES (BY STATE AGENCY)

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR (86-22)

1-1. Indirect Cost Recovery

(This issue could affect all of the office's federal assistance. During the audit period, the office expended federal assistance received from the following federal agencies: Department of Energy, Department of Education, and Department of the Interior.)

The office did not charge indirect costs to federal programs during the audit period. Section 17-3-111, MCA, requires that each agency negotiate agreements with the federal government to recover, to the fullest extent possible, indirect costs of administering federal grants.

According to agency personnel, accounting duties were reassigned in fiscal year 1984-85. The Central Services Division, Department of Administration, now performs the payroll function and prepares claims and deposits for the office. The Northwest Power Planning Council, the major federally funded program, approves its own claims and prepares its own budget. Because the council assumed these overhead activities, council management in Montana refused to pay indirect costs at the previously approved rate. The office did not submit a revised cost rate to the council. Therefore, the council did not have the opportunity to accept a revised rate based on reassigned overhead. The office is required by law to negotiate for recovery of indirect costs to the fullest extent possible. Using the previous indirect cost rate of 7 percent of personal services expenditures, estimated grant revenue of $13,530 and $16,628 was lost to the General Fund in fiscal years 1984-85 and 1985-86, respectively.

RECOMMENDATION #1-1

WE RECOMMEND THE OFFICE RECOVER INDIRECT COSTS OF FEDERALLY SUPPORTED PROGRAMS IN ACCORDANCE WITH STATE LAW.

RESPONSE #1-1

We concur with the recommendation. The Northwest Power Planning Council received approval for a retroactive overhead rate with their federal funding agency. The Council deposited $13,530 and $16,628 to the General Fund for Fiscal Years 1985 and 1986, respectively. The Council is also negotiating an indirect cost rate for their current fiscal year.

Based on services provided, the Council will negotiate indirect cost rates annually.

1-2. Management of Grant Cash

(CFDA #84.161, 81.999)

The office recorded all federal and private grants in the same accounting entity during the audit period. During our audit we noted the following conditions:

1. The Department of Education Client Assistance Program (CAP) grant was frequently in a negative cash situation during the audit period. The office used several inter-entity loans as well as cash from other grants in the accounting entity to meet expenses billed under this grant.

2. The Northwest Power Planning Council (the council) cash balance was consistently negative during fiscal year 1985-86. Funds from other grants in the accounting entity covered council expenditures during periods when the cash balance was negative.

State law requires agencies to expend non-General Fund moneys before General Fund dollars are spent. Neither the Client Assistance Program nor the council funding arrangements place any limits on the number of drawdowns permitted. However, the contractor performing Client Assistance Program work bills the office infrequently and usually needs payment quickly, according to agency personnel.

We calculated the cost to the state in lost interest of negative cash balances for the Client Assistance Program, using the Treasurer's Fund rate, as $103, $20, and $337 in fiscal years 1984-85, 1985-86, and the first four months of 1986-87, respectively. We estimated negative cash balance for the council cost the state $858 in fiscal year 1985-86.

RECOMMENDATION #1-2

WE RECOMMEND THE OFFICE ADOPT CASH MANAGEMENT PROCEDURES TO ELIMINATE NEGATIVE CASH BALANCES FOR FEDERAL GRANTS.

RESPONSE #1-2

We concur with the recommendation. The Northwest Power Council has implemented procedures to improve internal monitoring of income and expenditures. A cash reserve has been provided for unexpected contingencies. These actions have eliminated negative cash balances.

1-3. Cash Controls

(This issue could affect all of the office's federal assistance. During the audit period, the office expended federal assistance received from the following federal agencies: Department of Energy, Department of Education, and Department of the Interior.)

During our audit we noted the following weaknesses in controls over cash.

1. Some checks were not restrictively endorsed when first received by agency personnel.

2. Checks not deposited each day were kept in an open basket on an employee's desk.

We also documented an instance where a federal warrant for $8,957 received in December 1982 was found by the office and deposited in February 1986. As a result, the state lost an estimated $3,026 in interest over the 38 months the warrant was misplaced.

Montana Operations Manual (MOM) section 12-1210.21 requires restrictive endorsement of all checks immediately upon receipt. MOM section 12-1210.22 directs each agency to deposit at least weekly but to deposit daily when receipts exceed $500.

Office officials said the office receives checks due to other agencies. Members of the public sometimes route money through the office when unsure of where to send it. For these reasons, the office does not endorse all checks immediately upon receipt. We determined the receipt of misdirected funds was not significant in dollars or number of transactions. The presence of misdirected checks does not negate the responsibility to restrictively endorse all checks belonging to the state.

RECOMMENDATION #1-3

WE RECOMMEND THE OFFICE ENSURE CASH CONTROL PROCEDURES IN USE COMPLY WITH STATE POLICY.

RESPONSE #1-3

We concur with the recommendation. New cash control procedures are being established; refinements to the procedures are on-going.

1-4. Contracted Services

(CFDA #81.999)

The Northwest Power Planning Council (the council) hired an individual under two contracts for personal services covering the period from October 15, 1984, to March 15, 1985. Prior to these contracts, the individual worked for the council as an intern under an agreement with the University of Montana. On March 18, 1985, the individual became an employee of the council.

In section 39-71-120, MCA, state law defines an independent contractor as "one who renders service in the course of an occupation and:

(1) has been and will continue to be free from control or direction over the performance of the services both under the contract and in fact; and

(2) is engaged in an independently established trade, occupation, profession, or business."

The service contract with the council required the individual provide, as requested, direct staff support services and assist council members in developing public information. The contract did not specify projects to be performed and completed under the contract. The individual hired by the council does not satisfy the legal definition of an independent contractor. During the contract period, the individual was under direct supervision of council personnel. In substance, the individual was an employee of the state during the contract period. As a result, the individual was employed by the state without holding either a classified or exempt position under 2-18-201, MCA. The council incurred $10,428 of operating expenditures under the contract which were actually personal services expenditures.

Agency personnel said the council had several vacant positions, but the workload requirements did not fit the positions. Classification procedures took longer than anticipated, so the council contracted for the services until the position could be classified, advertised, and filled.

RECOMMENDATION #1-4

WE RECOMMEND THE OFFICE:

A. COMPLY WITH STATE PERSONNEL LAWS.

B. CLASSIFY PERSONAL SERVICES AND CONTRACTED SERVICES IN ACCORDANCE WITH STATE LAW.

RESPONSE #1-4

We concur with the recommendation.

OFFICE OF THE STATE AUDITOR (86-17)

2-1. Central Payroll Reimbursements

(This issue could affect all of the state's federal assistance, as shown on the Schedules of Federal Financial Assistance for each of the fiscal years ended June 30, 1986 and 1987.)

In our last report we recommended the office develop a system to charge state agencies for payroll processing costs so those costs would be allowable under federal regulations. The state was not complying with federal regulations requiring federal program costs be billed on a consistent basis. Inconsistent billing of payroll processing costs results from two sources:

1. Statewide Cost Allocation Plan (SWCAP) cost treatment resulted in double charging federal grants.

2. Charges were not assessed based on the actual cost of processing.

In our last audit, our concern over SWCAP cost treatment was that payroll processing costs were included in both the direct and indirect sections of the plan, and as a result, federal programs could be billed twice for the same non-General Fund costs. The office worked with the Department of Administration to correct this problem. The solution was to eliminate non-General Fund payroll processing costs from the indirect cost section of

SWCAP. However, if agencies include the General Fund payroll processing costs portion of the SWCAP indirect costs in their indirect cost pool, federal programs may be improperly billed for General Fund processing costs and also billed directly for processing costs related to federal program activity.

The current appropriation structure for central payroll processing costs is a two-tiered system. The office is given an appropriation to process payroll for all General Fund entities and most non-General Fund entities receive individual appropriations which include payroll processing costs. Our prior recommendation stated the office should base payroll processing charges on actual costs. The office developed a formula for charging based on actual processing costs from fiscal year 1983-84. However, since appropriations for non-General Fund payroll processing, as set by the 1985 Legislature, were lower than actual costs, the plan could not be fully implemented.

The office has not completely eliminated the inconsistencies related to the SWCAP treatment of payroll processing costs. In addition, the actual cost billing plan was not completely implemented due to the current appropriation structure. Consequently, the state is not complying with federal regulations and may face federal sanctions.

A possible solution to the inconsistent billing problem would be a change in the appropriation structure. The legislature could make a General Fund appropriation for all payroll processing costs to the office and the processing costs could be included in the indirect cost section of SWCAP. A second alternative would be for all entities (General Fund and non-General Fund) to receive appropriations which include payroll processing costs; then the office could bill all entities directly and exclude all processing costs from SWCAP. A third alternative would be to leave the appropriation structure as it is currently, and as in alternative two exclude all costs from SWCAP. The office is currently proposing the second alternative.

RECOMMENDATION #2-1

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR:

A. WORK WITH THE DEPARTMENT OF ADMINISTRATION TO DEVELOP PROCEDURES TO ELIMINATE THE POSSIBILITY OF FEDERAL PROGRAMS BEING IMPROPERLY CHARGED FOR GENERAL FUND PAYROLL PROCESSING COSTS.

B. SEEK APPROPRIATION AUTHORITY TO:

1. ALLOW BILLING OF ALL STATE AGENCIES BASED ON ACTUAL COSTS.
2. ALLOW FOR CONSISTENT BILLING TREATMENT OF BOTH GENERAL FUND AND NON-GENERAL FUND ENTITIES IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #2-1

The State Auditor's Office, Central Payroll Division believes that Alternative Two is the best of the three alternatives. This alternative involves legislative appropriations to all General Fund and Non-General Fund Agencies for payroll processing fees. In the Budget Hearings for the 1990-91 Biennium our office will attempt to implement this alternative.

2-2. Revenue Classification

(CFDA #10.665)

The office receives money from the federal government to be distributed to those counties with federal forest lands within the county boundaries. This money is received in two payments each year (October and December). State law requires the first payment be invested by the office until the second payment is received. At that time both payments and any interest earned is distributed to the counties involved.

The investment procedures required by this law were first implemented in fiscal year 1985-86. When the office received the interest earnings it assumed that since the earnings related to Federal Forest Reserve funds they should be recorded in the Federal Forest Reserve Revenue object. This revenue object is reported as Federal Assistance. However, the proper classification per state policy is Investment Earnings. In fiscal year 1985-86, $65,559 in interest was earned on the investment. Thus, Special Revenue Fund Federal Assistance revenue is overstated and Investment Earnings revenue is understated by $65,559 for fiscal year 1985-86.

RECOMMENDATION #2-2

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR ADOPT PROCEDURES TO ENSURE INVESTMENT EARNINGS ON FEDERAL FOREST RESERVE FUNDS ARE PROPERLY CLASSIFIED.

RESPONSE #2-2

The State Auditor's Office has consulted with the Board of Investments and established the proper Revenue Object to record investment earnings on the Forest Service Reserve monies. The investment earnings for Fiscal Year 1987 (July 1, 1986 - June 30, 1987) were recorded in compliance with this recommendation.

OFFICE OF PUBLIC INSTRUCTION (OPI) (86-9 and 88-12)

3-1. Continuing Appropriation

(This issue could affect all of the office's federal assistance. During the audit period, the office expended federal assistance received from the following federal agencies: Department of Education, Department of Agriculture, Department of Labor, Department of the Interior, and Veterans Administration.)

OPI, prior to fiscal year 1984-85, accounted for all of its federal money in the Agency Fund with no regard as to whether OPI had discretion over the funds. Beginning with fiscal year 1984-85, OPI reclassified the discretionary grants as federal special revenue accounts. The nondiscretionary funds remain in the Agency Fund. Discretionary grants were approximately $3.5 million in fiscal year 1985-86 and $4.6 million in fiscal year 1986-87, while non-discretionary grants totaled approximately $25.8 million and $26.9 million in fiscal years 1985-86 and 1986-87, respectively.

OPI, in the past, carried appropriation authority from one fiscal year to the next in order to monitor expenditure activity in the Special Revenue Fund and the Agency Fund because federal grants covered more than one state fiscal year. In December 1985, OPI was directed to change this procedure in the Special Revenue Fund for fiscal year 1985-86 and beyond because neither the statutes nor the appropriations bill provided for carrying over appropriation authority between fiscal years. This change has caused increases in the amount of time needed to prepare federal reports, process documents, and correct errors. OPI officials estimate the time has doubled and tripled in some areas which in turn results in increased costs to administer federal programs.

Section 20-9-603, MCA, states the Superintendent of Public Instruction has the authority to expend money from federal sources at his discretion, thus indicating OPI has a statutory appropriation for federal money. However, this law does not meet the criteria for statutory appropriation as outlined in sections 17-7-501 and 17-7-502, MCA. These statutes indicate statutory appropriations must reference section 17-7-502, MCA, and also be listed in that section. The appropriate cross-reference for section 20-9-603, MCA, is not included in the statutes. Sections 20-6-406 and 20-8-111, MCA, which also provide for appropriation authority for OPI, do contain the required statutory appropriation language.

Utilizing statutory appropriations for these federal funds would be cost effective. OPI should seek legislation to amend sections 20-9-603 and 17-7-502, MCA, to include section 20-9-603, MCA, as a statutory appropriation.

RECOMMENDATION #3-1

WE RECOMMEND OPI SEEK LEGISLATION TO AMEND SECTIONS 20-9-603 AND 17-7-502, MCA, TO ALLOW STATUTORY APPROPRIATION OF FEDERAL MONEY.

RESPONSE #3-1

The Office of Public Instruction concurs with this recommendation and has presented this problem to the legislature each year since the problem began in FY 1984-85 but to this point has not received permission to use continuing appropriations beyond the end of a biennium.

3-2. Federal Funds Supplant General Fund

(CFDA #84.151)

Federal regulations require at least 80 percent of Educational Consolidation and Improvement Act (ECIA) Chapter II Block Grant Funds be distributed to schools which submit applications showing allocation of funds between basic skills development, educational improvement and support services, and special projects. The balance of the grant may be used for administration. The amount of money expended under the block grant during fiscal year 1985-86 was $2,404,563, of which $424,355 was related to admin-

istration. During fiscal year 1986-87 OPI expended $2,273,957 under the block grant, of which $428,299 was for administration.

Public Law 97-35 establishes the ECIA Chapter II block grant. It limits the use of ECIA Chapter II funds to activities which supplement and increase the level of funds that would otherwise have been available in the absence of federal funds and prohibits the use of funds for use in performing functions mandated by state law. OPI's data processing department is entirely funded by ECIA Chapter II Block Grant funds.

The office processes reports which support major state legislated functions such as the foundation program, transportation, and teacher certification. In supporting these programs with Block Grant funds, OPI is supplanting state effort with federal funds.

During fiscal year 1984-85 OPI spent an estimated $208,000 providing state program support, i.e., 70 percent of the data processing expenditures. The estimate for fiscal year 1985-86 is $193,600. For fiscal year 1986-87 OPI personnel estimated the state program support at fifty percent, or $126,000. We question the allowability of these costs. OPI management has requested General Fund support from the legislature in the last several legislative sessions to cover these expenditures and the legislature has not approved it. OPI could lose ECIA Chapter II Block Grant funds if the supplanting condition is not corrected.

RECOMMENDATION #3-2

WE RECOMMEND OPI CHARGE ONLY ALLOWABLE COSTS TO THE ECIA CHAPTER II GRANT.

RESPONSE #3-2

The Office of Public Instruction presented this situation to the Legislature on at least six occasions in the last ten years but received no satisfaction in resolving the problem. For FY 1989 OPI has taken steps to assure that expenditures made to the ECIA CHAPTER II Block Grant funds are in compliance with the rules and regulations of the grant by changing the funding sources for the functions that were previously funded completely with these Chapter II funds.

3-3. <u>EHA-B and ECIA-I, Maintenance of Effort</u>

(CFDA #84.027, 84.010)

In February 1986, OPI developed new procedures for monitoring maintenance of fiscal effort by school districts in the area of special education. The procedures, a response to a recommendation in our previous audit, are designed to ensure that federal funds supplement, rather than supplant, state and local funds expended for special education. In applying the new procedures, OPI will calculate actual state and local expenditures for special education from amounts reported on the annual school district trustees' reports.

During our audit of fiscal years 1984-85 and 1985-86, testing of maintenance of effort revealed inconsistencies in reporting between school districts. Two districts did not report payroll benefits of special education personnel separately from those of other employees. Two other districts used a separate account to report special education expenditures from contingency funds. Inconsistencies by school districts in reporting expenditures make it difficult to determine what was actually expended for maintenance of effort.

By requiring standard reporting practices, OPI could monitor maintenance of effort through a computer generated report based on data from school district trustees' reports. Computer software could be developed to extract and total designated line items for maintenance of effort from the reports, which are already entered on OPI's computer system. By automating, OPI could save 50-60 hours per year in compilation time alone.

According to OPI officials, OPI data processing personnel are presently developing a data base program to extract special education program expenditures from school district trustee reports. This will allow the approving specialist access to the latest information. In addition, further steps are being taken to improve reporting by school districts, e.g., providing assistance to districts regarding maintenance of fiscal effort and follow-up at in-service meetings.

During the interim work for our audit of fiscal years 1986-87 and 1987-88, we noted the maintenance level of effort for the Education Consolidation and Improvement Act (ECIA) Chapter I Grant funds was not adequately supported. The computer file used to prepare the report showing maintenance of effort at the school districts is updated after the reports are run. As a

result we were unable to trace the dollar amounts on the reports to the supporting documentation. Based on our work it appears maintenance of effort was met. However, due to the lack of support we cannot verify this.

OPI personnel indicated they plan to implement procedures to provide a method of tracing the maintenance of effort report to supporting documentation.

RECOMMENDATION #3-3

WE RECOMMEND OPI:

A. STANDARDIZE PRACTICES FOR REPORTING SPECIAL EDUCATION EXPENDITURES ON SCHOOL DISTRICT TRUSTEES' REPORTS.

B. IMPLEMENT PROCEDURES TO ENSURE MAINTENANCE OF EFFORT REPORTS FOR ECIA CHAPTER I ARE ADEQUATELY SUPPORTED.

RESPONSE #3-3

The Office of Public Instruction concurs. In order to rectify this problem the Office began on July 1, 1988, a procedure where any district whose trustee report was found in error was notified that any future funds would be withheld until corrections were made and considered final by OPI. In order to avoid future problems only final reports will be used to calculate maintenance of effort.

3-4. JTPA Reporting Errors

(CFDA #17.250)

OPI received Job Training and Partnership Act (JTPA) funds under a subgrant from the Department of Labor and Industry (DOLI). In reviewing the February 1986 monthly report submitted to DOLI by OPI for this grant, we noted that three of five computations tested were inaccurate. Errors included using incorrect matching percentages, adding administration costs to base costs for matching determination, omitting required figures, and an addition error. The errors related only to reporting the activity, not to the expenditure of funds.

When we found similar errors in the fiscal year 1985-86 JTPA final report, OPI prepared a revised final report. We reviewed the revised report and determined the report to be properly prepared and supported by OPI's accounting records and project files.

The accounting technician who prepared the reports was new to the position. The reports were not reviewed by other personnel before being submitted to DOLI. Review procedures would have identified the errors and allowed for their correction.

RECOMMENDATION #3-4

WE RECOMMEND OPI ESTABLISH REVIEW PROCEDURES TO ENSURE GRANT REPORTS ARE ACCURATE.

RESPONSE #3-4

Procedures have been implemented to insure that grant reports are accurate.

3-5. School Foods Reports

(CFDA #10.555)

The quarterly reports for the School Foods grant (FSN-10) are prepared from data received from local school districts. This data is compiled by OPI on a computer generated quarterly report (SF-20).

During our testing of the School Foods grant activity, we noted an instance where the quarterly federal report did not tie to the computer report. The FSN-10 for September 1984 claimed 269 more paid lunches and 63 more free lunches than were included in the SF-20 report. These lunches amounted to $332. We found no audit trail to trace the difference. We therefore question the allowability of these costs.

According to OPI personnel, school districts sometimes file amended reports or do not file all school foods information monthly in time for running the quarterly report. Information revised after the computer run is used on the federal report. OPI personnel responsible for preparing federal reports should ensure the reports are completely supported and revised information is adequately documented.

RECOMMENDATION #3-5

WE RECOMMEND OPI MAINTAIN SCHOOL FOOD RECORDS SUFFICIENT TO SUPPORT REPORTED EXPENDITURES.

RESPONSE #3-5

Procedures to insure that records sufficient to support reported expenditures in school foods have been established .

3-6. Accounting Issues

(This issue could affect all of the office's federal assistance. During the audit period, the office expended federal assistance received from the following federal agencies: Department of Education, Department of Agriculture, Department of Labor, Department of the Interior, and Veterans' Administration.)

House Bill 800, enacted during the 1985 Legislative Session, amended section 17-1-102, MCA, to require state agencies to input, before the close of the fiscal year, all transactions necessary to show receipt, use, and disposition of public money in accordance with generally accepted accounting principles. The situations discussed below are cases where accounting procedures applied by OPI, the Department of Administration - Treasury Bureau (Treasury Bureau), and the Department of Commerce did not comply with state law.

1. In fiscal year 1985-86, OPI records included an abatement of current year revenue in the Special Revenue Fund for a refund to a county of excess county equalization surplus paid the previous year. As a result Special Revenue Fund revenue was understated in fiscal year 1985-86 and overstated in fiscal year 1984-85 by $35,905. The transaction had been input by the Treasury Bureau.

2. OPI received mineral royalty revenue of $11,479 in the Special Revenue fund attributable to fiscal year 1983-84. The Treasury Bureau recorded the receipt as fiscal year 1984-85 revenue on the collections report. OPI did not correct the coding error made by the Treasury Bureau. Therefore, fiscal year 1984-85 Special Revenue Fund revenue was overstated by $11,479.

3. The Department of Commerce overdistributed coal tax earnings to OPI for fiscal year 1983-84. The department corrected the over-distribution by reducing OPI's October 1984 and January 1985 coal tax distributions. OPI did not record the adjustments as reduction of fiscal year 1983-84 revenue. As a result Special Revenue Fund revenue for fiscal year 1984-85 was overstated by $4,202.

4. OPI routinely records receipt of moneys from other agencies and outside parties for labels printed by its data processing department

as abatements of data processing supplies expenditures. The charge for the labels includes costs of supplies and staff time. Under state accounting policy, only expenditures recorded in error or made solely for the benefit of another entity should be abated. Because this activity is routine from year to year, it does not meet either of the criteria for expenditure abatement. We estimated that revenue and expenditures were understated by $2,200 in the Special Revenue Fund in each of the two fiscal years under audit.

5. OPI purchased T-shirts, ordered by teachers, with Title IX program funds in fiscal year 1984-85. When the teachers reimbursed the program, OPI improperly abated 1985-86 expenditures.

6. At fiscal year-end 1985-86, OPI properly abated General Fund transfers out and Special Revenue Fund transfers in for $27,900,696, the remaining balance of the supplemental foundation program appropriation. However, OPI used the wrong year-end cash accounts in making the adjustments. As a result, both the Due from Other Funds and Due to Other Funds accounts were understated by $27,900,696 on state accounting records. The error did not affect cash balances in the following fiscal year.

7. In August 1985, OPI leased a car for the State Superintendent. They recorded the lease as an operating lease. The minimum lease payments exceed 90 percent of the fair market value of the car and the term of the lease is 80 percent of the vehicle's economic life. Therefore, the lease qualifies as a capital lease and the car should be recorded on OPI's equipment records.

8. At fiscal year-end 1984-85 OPI did not establish an accrual for county surplus. At fiscal year-end 1985-86 OPI only accrued revenue for three counties when cash was received during the fiscal year-end cut-off period. By not accruing surplus, Special Revenue Fund revenue was understated by $1,345,007 and $950,454 in fiscal years 1984-85 and 1985-86, respectively. OPI has sufficient information from accounting records and county superintendent budgets to estimate surplus. Additional information could be obtained by calling county treasurers. Recording an estimate of the total, anticipated surplus at June 30 is a reasonable approach to ensuring the accounting records reflect all activity.

9. The Treasury Bureau records county surplus revenue as current year revenue when received. OPI should ensure this revenue is recorded in the correct year. We noted that this correction was not made in fiscal year 1985-86 thereby overstating revenue by $721,936. Unaccrued fiscal year 1985-86 revenue of $950,454 should be abated in the current fiscal year to prevent overstatement of fiscal 1986-87 revenue. The misstatements are in the Special Revenue Fund.

As part of our review of accounting records, we reviewed OPI revenue estimates for surplus collections from the basic mill levy and compared these

to actual revenues received from the counties by OPI for the two fiscal years of our audit period. Based on these estimates, actual surplus remitted exceeded the revenue estimate by 81 percent and 49 percent in fiscal years 1984-85 and 1985-86, respectively. This money is reported as tax revenue in OPI's financial schedules. Collections in fiscal year 1984-85 exceeded the estimate by $9,787,766 and collections in fiscal year 1985-86 exceeded the estimate by $6,333,894. The established revenue estimate for county surplus is not representative because actual surplus varied by less than 10 percent in the past three years and can be more closely approximated from data OPI maintains.

RECOMMENDATION #3-6

WE RECOMMEND OPI:

A. DEVELOP SPECIFIC PROCEDURES TO BE FOLLOWED DURING FISCAL YEAR-END AND THE FIRST MONTHS OF THE SUBSEQUENT YEAR TO ENSURE REVENUES AND EXPENDITURES ARE RECORDED IN THE PROPER FISCAL YEAR ACCORDING TO STATE LAW.

B. REVIEW TRANSACTIONS INPUT BY OTHER AGENCIES WHICH AFFECT ITS ACCOUNTING RECORDS.

C. RECORD ASSETS ACQUIRED UNDER CAPITAL LEASE ON ITS ACCOUNTING RECORDS.

D. ESTABLISH REVENUE ESTIMATES WHICH MORE CLOSELY APPROXIMATE THE SURPLUS COLLECTIONS FROM THE BASIC MILL LEVY.

RESPONSE #3-6

A. OPI concurs.
B. OPI concurs.
C. OPI concurs.
D. OPI concurs.

BILLINGS VOCATIONAL-TECHNICAL CENTER (87-06)

4-1. Federal Reporting

(CFDA #84.063, 84.033, 84.007, 84.069)

The financial aid office at the center determines eligibility and disburses financial aid to students. Financial aid programs at the center are Pell Grants, College Work Study, Supplemental Educational Opportunity Grants (SEOG), and State Student Incentive Grants (SSIG). As part of its management of federal student financial aid programs, the financial aid office maintains manual records of disbursements. The financial aid officer completes a federal report, by program, of the aid disbursed to students using amounts recorded on the manual records rather than the amounts recorded on the Statewide Budgeting and Accounting System (SBAS).

In completing the reports for fiscal year 1985-86, the amount for College Work Study varied from the amount recorded on SBAS by a net of $120. The center compared the amounts recorded on each system but no reconciliation was completed. Our audit determined the amount from the financial aid manual records was correct.

For the fiscal year 1986-87 federal financial aid report, the reported amount for Pell was $50 different from the SBAS figure. Since no reconciliation was made, the center was unaware of the differences. Center officials subsequently determined the discrepancy was due to a timing difference for a student refund.

Federal regulations require recipients to ensure that financial reports contain reliable financial data. SBAS has been designated as the state accounting system, and federal regulations require the reported figures be reconciled to SBAS amounts. It is the responsibility of the center to reconcile any differences between reporting systems.

RECOMMENDATION #4-1

WE RECOMMEND THE CENTER RECONCILE SBAS AND THE FINANCIAL AID OFFICE MANUAL RECORDS BEFORE PREPARING FEDERAL FINANCIAL AID REPORTS.

RESPONSE #4-1

The Center concurs with this recommendation. Reconciliation of SBAS and financial aid records will be completed before Federal Financial Aid Reports are prepared, beginning immediately.

4-2. Federal Property

(CFDA #84.048)

The center has purchased equipment with Carl Perkins funds received as a subgrant through the Office of Public Instruction. No procedures currently exist to identify that equipment as property purchased with federal money. Attachment N, OMB Circular A-110, requires the center provide a means for accurately identifying property purchased with federal funds.

If the center fully uses the capabilities of its current property management system, it could identify on its records those items purchased with federal funds. Any lack of compliance with federal regulations places the agency at risk for obtaining future federal funds.

RECOMMENDATION #4-2

WE RECOMMEND THE CENTER DEVELOP PROCEDURES TO IDENTIFY, ON ITS ACCOUNTING RECORDS, PROPERTY PURCHASED WITH FEDERAL FUNDS.

RESPONSE #4-2

The Center concurs with this recommendation. Coding procedures will be implemented immediately on accounting records to identify property purchased with Federal funds.

4-3. Accounting Issues

(CFDA #84.033)

The prior audit included a recommendation related to proper accounting procedures. We commend the center for its progress towards implementation of that recommendation, and believe additional improvement could be accomplished. During our current audit work, we encountered several accounting errors. To assist in assuring accuracy, center personnel responsible

for preparation of documents should review for proper coding, including coding for the correct year. Some of the errors noted are as follows:

1. In transferring fiscal years 1983-84 and 1984-85 school district auction proceeds from the Current Auxiliary Subfund to the Current Designated Subfund in fiscal year 1985-86, revenue was credited to current rather than prior year. Current year revenues are overstated.

2. We noted two errors in making corrections to the College Work Study entity in both fiscal years.

   In fiscal year 1986-87 the center, in correcting an expenditure error, made the correction to current rather than prior year expenditures.

   The center accumulates federal funds in a clearing account, transferring money as needed to the student aid program recording the revenues and expenditures. Because of an error in fiscal year 1985-86, funds were not properly transferred to the College Work Study entity. The omission was noted in fiscal year 1986-87, but the correction was made to current rather than prior year revenues.

These errors resulted in revenue being misstated in fiscal year 1985-86 by $11,929 and in fiscal year 1986-87 by $136. In fiscal year 1986-87, expenditures are misstated by $225. Accuracy in the accounting records is essential as those figures are used in the preparation of budgets and reports and assist in management decisions. The center could implement procedures to provide for a review of SBAS documents prior to input to help detect errors.

RECOMMENDATION #4-3

WE RECOMMEND THE CENTER REVIEW DOCUMENT CODING PRIOR TO INPUT.

RESPONSE #4-3

The Center concurs with this recommendation. Document coding will be reviewed and verified prior to input.

BUTTE VOCATIONAL-TECHNICAL CENTER (87-09)

5-1. Pell Grant Overpayments

(CFDA #84.063)

During our testing of Pell Grant awards, we noted that the center used improper cost of attendance amounts for determining Pell Grant payments for many students. In fiscal year 1985-86, the improper cost of attendance amount used by the center resulted in Pell Grant overpayments to all students who resided with their parents. The center used a room and board allowance of $1,150 while the maximum allowable amount per federal regulations (34 CFR 690.51) was $1,100.

The Pell Grant overpayments were also noted in a financial aid program review conducted by the Institutional Review Branch of the U.S. Department of Education. In response to the program review, the center was required to determine the number and amount of Pell Grant overpayments made to dependent students in fiscal year 1985-86 and to repay the amount of the overpayments to the Department of Education. Fifty-nine students received Pell Grant payments that exceeded the allowable payment amount by a total of $2,537. We determined that the center did repay the $2,537 to the Department of Education in August 1987. As a result, no further corrective action is necessary.

In fiscal year 1986-87, the center included a one time $10 application fee in the cost of attendance amount used for calculating all Pell Grant awards. The application fee is an allowable cost of attendance for new students who are required to pay the fee. The application fee cannot be included in the cost of attendance for returning students who do not pay the fee. Pell Grant awards are based upon a Pell Grant Payment Schedule with different payment levels for different cost of attendance brackets. The center's inclusion of the $10 application fee did not affect the amount of Pell Grant awards made to students not residing with their parents since it did not change their cost of attendance bracket. However, the $10 application fee did change the cost of attendance bracket for dependent students. The proper cost of attendance amount for a dependent, returning student was $2,094 which is in the $2,000-$2,099 cost of attendance bracket. The cost of attendance amount used by the center for all dependent students was $2,104 which includes the $10

application fee and is in the $2,100 - $2,199 cost of attendance bracket. As a result of using an improper cost of attendance amount and bracket, the center's Pell Grant award to each dependent, returning student exceeded the amounts allowed by federal regulations by $50 to $60 in the award year. Due to the large number of students involved, it was not practical for us to determine the total amount of the overpayments. However, the center reported in its federal fiscal operations report a total of 71 dependent students for fiscal year 1986-87. Total overpayments could be as much as $3,900. In order to comply with federal regulations, center personnel should identify and review those fiscal year 1986-87 Pell Grant recipients that were returning, dependent students and calculate the total actual amount of overpayments. The center should contact the Department of Education for guidance on the proper resolution of this matter.

RECOMMENDATION #5-1

WE RECOMMEND THE CENTER:

A. CALCULATE THE PELL GRANT COST OF ATTENDANCE IN ACCORDANCE WITH FEDERAL REGULATIONS.

B. DETERMINE THE AMOUNT OF PELL GRANT OVERPAYMENTS IN FISCAL YEAR 1986-87.

C. CONTACT THE DEPARTMENT OF EDUCATION TO RESOLVE THE PELL GRANT OVERPAYMENTS.

RESPONSE #5-1

The overpayments were due to the erroneous charge of the $10 application fee to returning students which amounts to $700 in total overpayments to 16 students. This amount was determined by an individual examination of all students who would have been affected based on which quarter they started and where they were on the payment schedule. The financial aid office will await directions from the Department of Education as to their requirements to satisfy this recommendation.

5-2. Financial Need Analysis

(CFDA #84.007, 84.032, 84.033, 84.063, 84.069)

Financial aid awards are predominantly based upon a student's financial need. Federal regulations (34 CFR 676.11 and 676.13) require educational institutions to use an approved need analysis system based upon a student's cost of attendance. For one of the financial aid awards we tested, the center used the wrong student budget amount in calculating the student's financial need. The student was married with two dependents which represents a student budget amount of $9,064 and a resulting financial need of $2,134 after deducting the student's financial resources. The center improperly used a student budget amount for a single parent with two dependents of $8,299. After deducting the student's financial resources, the student's resulting financial need was $1,369. The center's use of an improper student budget amount caused the student's financial need to be understated by $765.

RECOMMENDATION #5-2

WE RECOMMEND THE CENTER CALCULATE STUDENTS' FINANCIAL NEED IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #5-2

This particular student who initially had his financial aid award determined as a single parent with two dependents and should have been a married student with two dependents was not deprived of any financial aid because of this oversight.

5-3. Monitoring Financial Aid Disbursements

(CFDA #84.007, 84.033, 84.063, 84.069)

The following two sections discuss instances in which the center did not effectively monitor financial aid disbursements.

--College Work Study Payroll

The College Work Study Program (CWS) provides part-time employment to students attending institutions of higher education who need the earnings to help meet their costs of postsecondary education. During our testing of CWS disbursements, we noted that the center did not record the June 1986 CWS

payroll on the accounting records in fiscal year 1985-86. These disbursements were recorded in August 1986 and charged to the fiscal year 1986-87 CWS federal authorization. The improper accounting treatment caused fiscal year 1985-86 expenditures to be understated and fiscal year 1986-87 expenditures to be overstated by $2,127. Center personnel indicated that the June 1986 CWS payroll was charged to the subsequent fiscal year since the federal CWS funds for fiscal year 1985-86 were fully expended. The center also used a portion of its federal funds designated for the administration of financial aid programs to partially finance the May 1986 CWS payroll. If the center had developed a system to monitor CWS earnings and awards it may have been possible to anticipate the problem and request additional federal authorization. The center should monitor the accumulated earnings of CWS students in relation to the CWS award amounts and the federal CWS funds available for disbursement.

--Administrative Cost Recovery

Federal regulations (34 CFR 675.18) allow institutions participating in student financial aid programs to use five percent of program award amounts for the administration of the programs. State law (section 17-3-111, MCA) requires institutions to recover indirect costs of federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money spent by an institution. In fiscal year 1985-86, the center did not apply $228 of allowable administrative costs to finance program administration and reduce general fund support. Instead, the funds were used to partially finance the May 1986 College Work Study Program payroll which the center had not effectively monitored, as noted in the previous report section. As a result, an additional $228 of state moneys was spent for program administration. In order to fully recover allowable administrative costs, the center should develop procedures to plan and monitor student financial aid disbursements.

RECOMMENDATION #5-3

WE RECOMMEND THE CENTER:

A. DEVELOP PROCEDURES TO PLAN AND MONITOR STUDENT FINANCIAL AID DISBURSEMENTS.

B. RECORD CWS PAYROLL EXPENDITURES IN THE PROPER FISCAL YEAR.

C. RECOVER ADMINISTRATIVE COSTS TO THE FULLEST EXTENT POSSIBLE.

RESPONSE #5-3

The financial aid officer believes that the amount of money ($228) which was utilized by the College Work Study payroll account in order to balance it out at a -0- figure, was money which was not accounted for in the state indirect cost recovery program. This amount was from that additional 5% administration cost allowed by the federal regulation. Therefore, this was an amount utilized only to facilitate accounting convenience and thereby not have an amount left in this award.

5-4. Cash Management

(CFDA #84.007, 84.033, 84.063, 84.069)

The center requests cash advances from the U.S. Department of Education to finance monthly student financial aid disbursements. The Department of Education requires educational institutions to request cash advances that do not exceed one month's needs per request. When a cash advance is received, the center should account for the cash in its federal cash account. Cash should only be transferred to financial aid accounts to finance the current month's disbursements.

During our audit, we noted that the center maintained excess cash balances in student financial aid accounts. Most of the center's monthly cash balances were adequate to finance two to four month's student financial aid disbursements. For proper federal cash management, educational institutions should plan and monitor monthly financial aid disbursements for the purpose of estimating monthly cash needs. Center personnel stated that as of the beginning of fiscal year 1987-88, federal cash is obtained through a wire transfer system which should help alleviate excess cash balances.

RECOMMENDATION #5-4

WE RECOMMEND THE CENTER DEVELOP PROCEDURES TO ESTIMATE STUDENT FINANCIAL AID PROGRAM MONTHLY CASH NEEDS.

RESPONSE #5-4

The financial aid office does strive to maintain its cash from the federal government in a responsible manner.

5-5. Summary

(CFDA #84.007, 84.032, 84.033, 84.063, 84.069)

The previous five report sections discussed instances where the center did not correctly calculate financial aid awards, student financial need and the institution's maintenance of effort. The incorrect calculations have resulted in financial aid overpayments, inaccurate federal reports and the understatement of a student's financial need. According to center officials, several of the items noted in the previous sections resulted from human error, not being aware of the requirements or personnel incorrectly understanding the requirements. The errors noted during our audit work and the reasons for them indicate that additional training of financial aid personnel may be necessary to help eliminate similar errors in the future. The need for staff training was also noted in a program review done by the U.S. Department of Education, Office of Student Financial Assistance in April, 1987.

RECOMMENDATION #5-5

WE RECOMMEND THE CENTER PROVIDE PERSONNEL TRAINING IN STUDENT FINANCIAL ASSISTANCE PROGRAMS.

RESPONSE #5-5

The Butte Vo-Tech Center makes available to its personnel the opportunity to avail themselves of training. This will also be available to these people in the future.

5-6. Designation of Federal Property

(CFDA #84.048)

The center purchased $9,703 of equipment with Carl Perkins funds received as a subgrant through the Office of Public Instruction (OPI). No procedures currently exist to identify the equipment as property purchased with federal money. Attachment N, OMB Circular A-110, requires the center to provide a means for accurately identifying property purchased with federal funds. Center personnel indicated they were not aware of this requirement for Carl Perkins grant moneys.

If the center fully utilizes the capabilities of its current property management system, it could identify on its records those items purchased with federal funds. Any lack of compliance with federal regulations places the agency at risk for obtaining future federal funds.

RECOMMENDATION #5-6

WE RECOMMEND THE CENTER DEVELOP PROCEDURES TO IDENTIFY, ON ITS ACCOUNTING RECORDS, PROPERTY PURCHASED WITH FEDERAL FUNDS.

RESPONSE #5-6

Butte Vo-Tech Center Director concurs with Recommendation #5-6. The Director met with the Property Service Head Engineer who has the responsibility of the Building Inventory on May 23, 1988 to discuss recommendation #5-6. The Property Service Head Engineer agreed to the date of August 26, 1988 to fully comply with recommendation #5-6.

GREAT FALLS VOCATIONAL-TECHNICAL CENTER (87-7)

6-1. Cost of Attendance

(CFDA #84.032)

Federal regulations (34 CFR 682.605) require the institution to accurately and completely fill out its portion of Guaranteed Student Loan (GSL) applications. The information requested of the center pertains to eligibility of the student; estimated cost of attendance; and student's estimated financial assistance for the period. Federal regulations (34 CFR 682.200) state an

institution must be able to justify and document the cost of attendance amounts established under the federal guidelines. Also, the institution is required to apply the established cost of attendance consistently to all students.

The center had no written procedures to document how the cost of attendance was determined for fiscal year 1985-86. We recreated these amounts based on the school's catalog price information to determine if the center's cost of education was reasonable. The center could not support the amount of budgeted tuition used in computing the cost of attendance. Budgeted tuition amounts did not match actual catalog prices. Also, in fiscal year 1985-86, we noted one instance out of twenty where the cost of attendance was not applied consistently. We could not determine how the center calculated one student's cost of attendance. Based on our audit work performed for GSL sample items, we noted no overpayments.

The center personnel could not produce the necessary supporting documentation because the financial aid officer who was responsible for these records is no longer employed by the center.

RECOMMENDATION #6-1

WE RECOMMEND THE CENTER COMPLY WITH FEDERAL REGULATIONS BY :

A. DOCUMENTING ITS CALCULATION OF COST OF ATTENDANCE.

B. CONSISTENTLY APPLYING THE ESTABLISHED COST OF ATTENDANCE.

RESPONSE #6-1

A. Concur, documentation and guidelines were implemented following fiscal year 1985-1986. The Center would like to note that tuition costs established by the Office of Public Instruction were in affect. However, in Fiscal Year 85-86 the financial aid cost of attendance budget used the incorrect tuition amount.

B. Concur, the cost of attendance have been consistently applied following Fiscal Year 1985-86.

6-2. Pell Overpayments

(CFDA #84.063)

Federal regulations (34 CFR 690.80) establish liability of the center for any Pell overpayments it makes to a student. The center must restore those funds to the Pell Grant account even if it cannot collect the overpayment from the student. We noted six students with Pell overpayments out of 25 tested. The errors were made in the following three areas:

1. Four students were awarded Pell grants based on full-time attendance when in fact the students were less than full-time.

2. One student was awarded a Pell grant based on the wrong Student Aid Index number.

3. Two students were awarded Pell grants based on a four quarter budget but attended school less than four quarters.

Note: One student was overpaid because of categories 1 and 3.

A total of $1,400 was overpaid to students we tested during fiscal years 1985-86 and 1986-87. We question these costs since they do not comply with federal regulations.

Center personnel indicated that the cause of the errors was due to human error. They were not aware of the above noted Pell overpayments. Similar problems were noted in the prior audit report. The center concurred with our prior recommendation but did not fully implement procedures to ensure overpayments would not occur.

RECOMMENDATION #6-2

WE RECOMMEND THE CENTER:

A. RECALCULATE ALL PELL GRANTS MADE DURING OUR AUDIT PERIOD TO DETERMINE IF OVERPAYMENTS OCCURRED.

B. REIMBURSE THE PELL GRANT ACCOUNT FOR PELL GRANT OVERPAYMENTS.

RESPONSE #6-2

A. All Pell awards will be recalculated by October 20, 1988.

B. The Center will bill students receiving an overaward of a Pell grant. Any needed adjustment to the Pell grant account will be followed as required by the rules and regulations of the U.S. Department of Education.

6-3. GSL - Enrollment Status

(CFDA #84.032)

Federal regulations (34 CFR 682.612) require the center to report to the lender within 60 days, changes in enrollment status, for students who receive a Guaranteed Student Loan (GSL). We noted one out of fifteen students tested where the lender bank was not notified within 60 days of change in enrollment status for fiscal year 1986-87.

This issue was noted in our previous audit. At that time, we recommended the center establish procedures to ensure lenders are notified within 60 days when a GSL recipient's enrollment status changes. Center personnel established procedures to notify the lenders, but this student was overlooked during the review of status changes.

RECOMMENDATION #6-3

WE RECOMMEND THE CENTER IMPROVE REVIEW OF STUDENT STATUS CHANGES TO ENSURE LENDERS ARE NOTIFIED WITHIN 60 DAYS.

RESPONSE #6-3

Concur, procedures have been implemented to insure notification of lenders within the time period.

6-4. Excess Federal Cash

(CFDA #84.063, 84.007)

For fiscal year 1986-87, the center had cash balances greater than amounts needed for disbursements. The Pell cash account had a minimum balance of $4,461 for July, August, and September 1986. The only activity was a $42 disbursement which occurred in September. The SEOG cash account had

a minimum balance of $4,360 with no disbursements for five consecutive months. Federal regulations state "the amount of cash in the account should not exceed one month's need." By not complying with federal regulations, the center could jeopardize the funding for these programs. This issue was a prior audit recommendation. In response to our prior audit recommendation, the center attempted to obtain a letter of credit from the Department of Education.

Center personnel stated that estimates were made one month in advance to ensure cash was on hand. However, due to delays in processing federal cash requests and errors in estimating the cash needs, the center had excess cash balances during our audit period. The center switched to a wire transfer system in December 1987 which should alleviate any potential excess cash.

RECOMMENDATION #6-4

WE RECOMMEND THE CENTER LIMIT CASH BALANCES TO ONE MONTH'S NEED.

RESPONSE #6-4

Concur, the use of electronic transfer will provide for better cash management.

HELENA VOCATIONAL-TECHNICAL CENTER (87-8)

7-1. Satisfactory Progress

(CFDA #84.063)

The center improperly awarded Pell Grants to an ineligible student during winter and spring quarters of 1987. Federal regulations (34 CFR 690.75) allow an institution to pay a Pell Grant to a student only after it determines that the student is meeting eligibility requirements and maintaining satisfactory progress. To maintain satisfactory progress under the center's policies, a student must achieve a 2.0 grade point average.

The exception noted in our testing involved a student receiving financial aid, who earned a 1.80 grade point average for spring quarter of 1986. The student did not maintain satisfactory progress, but could still be awarded a Pell Grant for one additional, probationary quarter (fall quarter of 1986) in

order to reestablish satisfactory progress. For fall quarter 1986, the student received a 1.78 grade point average and, thus, became ineligible for another Pell Grant. However, the center awarded the student two additional Pell Grants of $530 each for winter and spring quarter of 1987. Center personnel stated that the winter quarter award was made based upon preliminary reports from the student's teachers which indicated the student would earn the minimum grade point average. The spring quarter award was considered by center personnel to be an oversight. Accordingly, we question the allowability of $1,060 of Pell Grant disbursements for fiscal year 1986-87.

RECOMMENDATION #7-1

WE RECOMMEND THE CENTER DISBURSE PELL GRANT FUNDS ONLY TO STUDENTS MAINTAINING SATISFACTORY PROGRESS.

RESPONSE #7-1

Concur. Beginning fall term, 1988, the following procedure will be used to prevent payments to students who are ineligible due to unsatisfactory progress.

1. After each quarter/semester a list of students with a grade point average of less than 2.0 will be prepared.

2. Students receiving less than a 2.0 average for a quarter/semester, will be placed on financial aid probation. Students will be able to receive financial aid for one term while on probation.

3. Official grades for the probationary period must be received by the financial aid officer prior to any further disbursement of financial aid. Probationary students who do not receive at least a 2.0 average will be dropped from financial aid.

7-2. Improper Pell Grant Charge

(CFDA #84.063)

During our audit, we noted an instance in which a student registered for classes, charged his tuition and fees to his Pell Grant award, and withdrew from school before the first day of classes. The center did not refund to the Pell Grant account the amount of the student's tuition and fees paid by the Pell Grant. Federal regulations (34 CFR 690.78) require an institution to return to the Pell Grant account any funds paid to a student or credited to

the account of a student who withdraws before the first day of classes. The amount of the Pell Grant charged to the student's account was $377 and represents a questioned cost of the fiscal year 1986-87 Pell Grant award.

RECOMMENDATION #7-2

WE RECOMMEND THE CENTER REFUND TO THE PELL GRANT ACCOUNT TUITION AND FEES PAID FOR STUDENTS WHO WITHDRAW PRIOR TO ATTENDING CLASS.

RESPONSE #7-2

Concur. The withdrawal/drop form will be revised to include a "no show" category. A copy of the withdrawal/drop form will be submitted to the financial aid officer as well as to the accounting supervisor.

7-3. Updating Financial Aid Awards

(CFDA #84.063, 84.033, 84.032)

Federal regulations (34 CFR 675.14) prohibit an institution from awarding financial aid to a student in excess of the student's financial need. During our audit, we noted an instance in which a student was awarded a Pell Grant, College Work Study and a Guaranteed Student Loan to meet his financial need. Before any funds were disbursed, the center adjusted the student's financial aid awards to reflect an increase in the Pell Grant award amount and a corresponding decrease in the College Work Study (CWS) amount. The adjusted award amounts were proper, however, the center did not update its computer file for the decreased CWS award amount. The center uses the computer file to monitor CWS payroll earnings. Since the computer file contained the higher, original CWS award amount, the student was allowed to earn a CWS salary in excess of his award amount. As a result of the error, the student was paid $272 in excess of his financial need.

RECOMMENDATION #7-3

WE RECOMMEND THE CENTER ESTABLISH PROCEDURES TO ENSURE THAT FINANCIAL AID AWARD AMOUNTS ARE PROPERLY UPDATED.

RESPONSE #7-3

Concur. Whenever the Financial Aid Officer authorizes a change in a student's financial aid award, the change will be made on the computer and a new award letter sent.

7-4. Financial Need Analysis

(CFDA #84.007, 84.032, 84.033, 84.063, 84.069)

Financial aid awards are predominantly based upon a student's financial need. Federal regulations (34 CFR 676.11 and 676.13) require educational institutions to use an approved need analysis system based upon a student's cost of attendance. For one of the financial aid awards we tested, the center used the wrong student budget amount in calculating the student's financial need. The student was unmarried with two dependents representing a student budget amount of $10,383 and a resulting financial need of $9,183 after deducting the student's financial resources. The center improperly used a student budget amount for a single head of household of $6,328. After deducting the student's financial resources, the student's resulting financial need was $5,128. The center's use of an improper student budget amount caused the student's financial need to be understated by $4,055.

RECOMMENDATION #7-4

WE RECOMMEND THE CENTER CALCULATE STUDENTS' FINANCIAL NEED IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #7-4

Concur. We believe that we are currently calculating students' financial need in accordance with federal regulations. We do consider family size when computing the student budget. The sample you reviewed contained an error made by financial aid personnel.

7-5. Guaranteed Student Loan Program

(CFDA #84.032)

Federal regulations (34 CFR 682.612) require the center to report changes in enrollment status to lending institutions for students who receive a Guaranteed Student Loan (GSL). During our audit, we noted that in five out

of thirteen instances tested, the center did not notify lenders when GSL recipients withdrew, graduated, or ceased to be enrolled at least half-time. Center personnel indicated that the five exceptions were due to oversight. An adequate system of administrative control would ensure that lenders are notified of enrollment status changes in accordance with federal regulations.

RECOMMENDATION #7-5

WE RECOMMEND THE CENTER ESTABLISH A SYSTEM TO NOTIFY LENDERS OF ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #7-5

Concur. When a withdrawal or drop form comes to the Financial Aid Office, the student's file is checked to see if he/she received a GSL. If so, any change in the student's enrollment status will be reported to the lender.

7-6. Maintenance Level of Effort

(CFDA #84.033, 84.007)

Federal regulations (34 CFR 675.20 and 676.20) require an institution that participates in the College Work Study Program and/or the Supplemental Educational Opportunity Grant Program to spend from its own scholarship and student financial aid program an amount at least equal to its established maintenance level of effort. The purpose of the federal regulation is to ensure that federal student financial assistance programs supplement, not supplant an educational institution's scholarship and student financial aid program. The center's established level of effort is $13,055 and represents the amount of state financial aid funds that the center must spend in a fiscal year. In fiscal year 1985-86, the center spent $10,773 of state financial aid funds which is $2,282 less than the required level of effort. The center also did not meet its required maintenance of effort level in fiscal years 1981-82, 1982-83, 1983-84, and 1984-85 as noted in our two previous audit reports. Center personnel indicated that the center does not have adequate nonfederal financial aid funds to meet its level of effort requirements.

In our testing of the fiscal 1986-87 maintenance of effort, we determined that the U.S. Department of Education no longer requires educational institutions to comply with or report a maintenance of effort beginning with fiscal year 1986-87. Since the maintenance of effort requirement will not be applicable in the future, no recommendation for future corrective action is necessary. However, because the center did not meet the required maintenance level of effort from fiscal year 1981-82 through 1985-86, the possibility of federal sanctions exists. The center should contact the U.S. Department of Education to resolve the maintenance level of effort issue.

RECOMMENDATION #7-6

WE RECOMMEND THE CENTER CONTACT THE DEPARTMENT OF EDUCATION REGARDING MAINTENANCE LEVEL OF EFFORT.

RESPONSE #7-6

Concur. The maintenance level of effort has always been reported annually to the Office of Education on the FISAP reports. A copy of this audit will also be sent to the Department of Education.

7-7. Pell Grant Disbursement System

(CFDA #84.063)

Federal regulations (34 CFR 690.78) allow an institution to pay a Pell grant to a student either directly by check or by crediting the student's account with the institution. The center currently begins class registration with state warrants already prepared for issuance to recipient students in the amount of the student's Pell grant award. Students have the choice of either paying their tuition and fees with their own funds at that time and accepting the state warrant for the amount of their total Pell grant award, or deducting their tuition and fees from their Pell grant. When students choose to have their tuition and fees deducted from their Pell grant, the center cannot issue the state warrants to the students since the amounts are for the total Pell grant award. As a result, the center must cancel these warrants and request new state warrants for the difference between the students' Pell grant award amounts and their tuition and fees. In fiscal year 1986-87, 158 Pell grant warrants totalling $75,004 were cancelled by the center. The current proce-

dure is cumbersome and creates a risk that a state warrant will accidentally be issued when it should be cancelled. Cancelling and reissuing warrants increases processing time and costs.

The center should consult with the university units and the other four vocational-technical centers to identify alternatives for modifying its Pell grant disbursement system.

RECOMMENDATION #7-7

WE RECOMMEND THE CENTER MODIFY AND IMPROVE ITS PELL GRANT DISBURSEMENT SYSTEM.

RESPONSE #7-7

We will investigate PELL Grant disbursement systems used at other vocational-technical centers and consider their adoption.

7-8. Summary

(CFDA #84.007, 84.032, 84.033, 84.063, 84.069)

As discussed in the previous seven report sections, our audit disclosed several instances of errors and/or overpayments in the financial aid programs and noncompliance with federal regulations. According to center personnel, many of the financial aid errors can be attributed to the absence of the financial aid officer during one fiscal year of the audit period. The financial aid officer's duties were performed by other center personnel who did not possess the experience or receive the training necessary to properly conduct the financial aid programs. Additional training of financial aid personnel may be necessary to help eliminate similar errors in the future.

RECOMMENDATION #7-8

WE RECOMMEND THE CENTER PROVIDE PERSONNEL ADDITIONAL TRAINING CONCERNING STUDENT FINANCIAL ASSISTANCE PROGRAMS.

RESPONSE #7-8

Concur. Our financial aid officer is allowed to attend as many training seminars as deemed necessary. Also, the financial aid secretary will be allowed to attend these workshops in the future as necessary.

MISSOULA VOCATIONAL-TECHNICAL CENTER (87-10)

8-1. Financial Aid Payments

(CFDA #84.063)

The center is required to determine any overpayments when a student changes status or leaves the institution after receiving a cash disbursement from the Pell program. The center made a mistake in calculating one student's Pell payment amount which resulted in a $122 overpayment. The difference of $122 should have been collected from the student and returned to the federal government. Since the center did not comply with federal regulations, we question $122 paid with federal funds. Center personnel stated the error in the overpayment occurred because the admissions office recorded this student's contact hours incorrectly. The student was recorded as enrolled in the same class twice, and as a result, the center calculated the student's status as three-fourths time instead of one-half time for repayment purposes.

Errors made on overpayment calculations result in students receiving more or less aid than the student is eligible to receive. An incorrect Pell overpayment calculation indicates a weakness exists in the center's control system.

RECOMMENDATION #8-1

WE RECOMMEND THE CENTER:

A. ESTABLISH PROCEDURES TO ENSURE PAYMENTS ARE CALCULATED ACCURATELY.

B. MAKE COST ADJUSTMENTS OF $122 OR OBTAIN A WAIVER FROM THE U.S. DEPARTMENT OF EDUCATION.

RESPONSE #8-1

We concur. During fiscal years 1986 and 1987, $691,920 was disbursed for Pell Grants. The $122 error represents an error rate of less than 0.02 percent. Center personnel will review future calculations in an attempt to reduce the error rate to zero. The U.S. Department of Education will be consulted during their audit response process to determine whether a cost adjustment or a waiver will be required. Financial Aid personnel will closely verify enrollment records with the Office of Admissions in an attempt to avoid further errors.

8-2. Satisfactory Progress Standards

(CFDA #84.007, 84.032, 84.033, 84.063, 84.069)

Federal regulations require the center to determine whether a student is maintaining satisfactory scholastic progress as a condition for receipt of student financial aid. Under the federal guidelines the center is required to establish a maximum time frame in which the student must complete his/her educational objective. The center is also required to make a determination at least once an academic year of the students' progress.

Although the center has a policy to determine satisfactory progress and reviews a student progress each quarter, we noted an oversight in the policy. The center has no policy established for the length of time a student has to complete a class in which he/she has received an "incomplete" grade. The possibility exists for students to continue to receive financial aid and not make up "incompletes."

RECOMMENDATION #8-2

WE RECOMMEND THE CENTER ESTABLISH A POLICY CONCERNING SATISFACTORY PROGRESS IN MAKING UP INCOMPLETE GRADES.

RESPONSE #8-2

We concur. The policy on incomplete grades has been changed and published in the 1988-89 Missoula Vocational-Technical Center Curriculum Catalog. Corrective action has been taken and the policy has been implemented.

8-3. Excess Federal Cash

(CFDA #84.007, 84.033, 84.063, 84.069)

We noted the center had a minimum balance of $21,629 after disbursements for April, May, and June 1987, in federal financial aid cash. Disbursements for the months of May and June were approximately $2,500 each month. Therefore, the $21,629 was in excess of the center's need for disbursements. Federal regulations require that the amount of cash on hand should not exceed one month's anticipated costs. By not complying with federal regulations, the center could jeopardize the funding for financial aid programs. Center personnel stated the last amount requested for fiscal year 1986-87 was overestimated. The center will use the excess money to reduce future requests. Center personnel stated that as of the beginning of fiscal year 1987-88 they went to a wire transfer system which should alleviate excess cash problems.

RECOMMENDATION #8-3

WE RECOMMEND THE CENTER MONITOR CASH BALANCES AND REQUEST ONLY ONE MONTH'S ANTICIPATED COSTS.

RESPONSE #8-3

We concur. As stated in the audit, the Center has adopted the use of the Federal wire transfer system to request cash. Turn around from time of request to receipt of cash has been reduced from in excess of 30 days to less than five days. Corrective action has been taken.

DEPARTMENT OF JUSTICE INCLUDING CRIME CONTROL DIVISION AND HIGHWAY TRAFFIC SAFETY DIVISION (87-21)

9-1. Contracted Services

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Transportation, Department of Justice, and Department of Energy.)

In December 1987, our office issued a performance audit report on state agency use of contracted services. The report discussed concerns regarding management controls and agency use of contracted services in state

government. The performance audit included testing of contracted services expenditures during fiscal year 1985-86 at Department of Justice and the Highway Traffic Safety Division, and indicated a lack of compliance with state policy and state law. Performance auditors noted a lack of written policies and procedures governing the use of contracted services. In the absence of a departmental policy, the following criteria were used to evaluate the department's compliance:

1. Governor's Management Memos 4-81-4R, 4-83-1R, 4-81-3R;
2. Title 18, Chapter 8, Montana Codes Annotated (MCA); and
3. Section 39-71-405, MCA, Workers' Compensation Law.

During our audit at the Department of Justice we followed up on the performance audit issues. Department of Justice officials notified us that, effective January 1, 1988, they are using the Governor's Management Memo 4-84-04 as a guideline for contracted services until a revised policy is established. The Highway Traffic Safety Division administrator indicated that, in addition to following state policy and since his funds are from federal sources, he uses OMB Circular A-102 as a guideline for contracted services.

The following sections summarize the problems noted at the Department of Justice and Highway Traffic Safety Division.

Department of Justice

1. Of 93 contracted services expenditures tested, 75 did not have a written contract or purchase order. These expenditures need not necessarily be supported by a contract due to low dollar amount or one time nature of the expenditure. Of the 93 examined, five were improperly coded. Of these five, two were improperly coded to contracted services and no contract was necessary. These two transactions were supported by purchase orders. The remaining three were miscoded at the detail level within the contracted services object of expenditure;

2. Central Services is not receiving copies of all contracts and supporting documentation as required by section 18-8-111, MCA;

3. Eight of the sixteen written contracts found had circumstances that were unclear regarding an employer/employee relationship;

4. Thirteen of the sixteen contracts found had no documentation of

certification with Workers' Compensation in accordance with section 39-71-401, MCA;

5. Two contracts were not competitively bid even though the cost exceeded $5,000. No documentation existed to justify these contracts as sole source;

6. Contracts were found that had not been properly submitted through the State Purchasing Division; and

7. Payment continued on two contracts after the January 1985 expiration date.

Highway Traffic Safety Division

1. Seven written contracts were reviewed and none contained documentation of certification with Workers' Compensation in accordance with section 39-71-401, MCA. The total of contracts with no verification of Workers' Compensation coverage was $126,601 in fiscal year 1985-86 and $50,847 in fiscal year 1984-85.

2. In one contract, it appeared as though an employer/employee relationship rather than an independent contractor's relationship existed. A division official acknowledged he had been trying to obtain legislative approval for an additional FTE. Since the work of writing brochures and press releases and acting as liaison with the media is essential to the division's work, this employment is handled through a contract. This individual was under contract in fiscal year 1985-86 for $32,840 and $7,877 in fiscal year 1984-85.

In order for Highway Traffic Safety Division expenditures to be allowable for federal reimbursement, they must be made in accordance with state law. Because the division is not in compliance with state law and policy regarding contracted services, we question costs of $126,601 in fiscal year 1985-86 and $50,847 in fiscal year 1984-85 (CFDA #20.600).

While testing fiscal year 1986-87 expenditures during our current audit, we noted charges to contracted services recorded by the department in the amount of $12,074 that were not supported by a contract. These payments were to a law firm hired to handle a case for the state; however, the contract for services expired in June 1986, but payments continued. In addition, the tested claim included hotel and per diem costs, however no receipt for the hotel was enclosed and per diem was claimed in excess of the allowable amount. Section 2-18-501, MCA, which establishes limits for reimbursement of travel expenses for state employees, was referenced as part of the expired

contract and, as such, governs the amount and procedures for reimbursement of travel expenses.

Agency officials indicated they were unaware the contract had expired. In their review of the claim, the errors were missed. Subsequent to our testing, a contract was signed covering the time period under question. The hotel receipt was obtained, and according to department officials, the overpayment of per diem will be deducted from the next payment to the attorneys.

RECOMMENDATION #9-1

WE RECOMMEND THE DEPARTMENT IMPLEMENT REVIEW PROCEDURES TO ENSURE CONTRACTED SERVICES ARE ADMINISTERED IN ACCORDANCE WITH STATE POLICY AND STATE LAW.

RESPONSE #9-1

The Department concurs and is studying its procedures to enable implementation of standard review procedures for all contracted services. The study should be completed and procedures implemented by January 1989.

9-2. Administrator Appointment

(CFDA #20.600)

The Highway Traffic Safety Program is administered by the Highway Traffic Safety Division. The division is headed by an administrator who is responsible for division operations. The Highway Traffic Safety Program was established to enable the state to receive federal funding for highway traffic safety. The original legislation, Chapter 177, Laws of 1967, provided for a Highway Traffic Safety Board appointed by the governor and responsible, among other things, for hiring of necessary personnel to carry out the intent of the Highway Traffic Safety Act.

During recodification in 1974, Chapter 348, Laws of 1974, repealed legislation relating to the Highway Traffic Safety Board thereby abolishing the board. No provisions were made for the appointment authority of the division administrator.

Section 2-15-2007, MCA, provides that Highway Traffic Safety Division is administratively attached to the Department of Justice but the program may hire its own personnel. Section 61-2-103, MCA, provides that the governor is responsible for the administration of the program. Since both state and federal regulations require the governor be responsible for the administration of the Highway Traffic Safety Program, it appears the governor should be the appointing authority for the administrator of the Highway Traffic Safety Division.

RECOMMENDATION #9-2

WE RECOMMEND THE GOVERNOR SEEK LEGISLATION TO CLARIFY THE APPOINTMENT AUTHORITY FOR THE HIGHWAY TRAFFIC SAFETY DIVISION ADMINISTRATOR.

RESPONSE #9-2

The Governor's office will work with the Department of Justice to prepare legislation on the subject for consideration by the 1989 Legislature.

9-3. Indirect Cost Reimbursement

(This issue could affect all of the board's federal assistance. During the audit period, all federal assistance expended by the board was received from the U.S. Department of Justice in the following federal programs: CFDA #16.540, 16.550, 16.573, 16.575, 16.579, and 16.603.)

We recommended in our two prior audits the Crime Control Division prepare an indirect cost proposal and recover indirect costs of federally supported programs. State policy requires agencies prepare an indirect cost proposal to claim indirect costs for both agency and statewide allocated indirect costs. Section 17-3-111, MCA, states in part, "grantee agencies shall, in accordance with federal regulations and guidelines, negotiate indirect costs rates and endeavor, to the fullest extent possible, to recover indirect costs of federal assistance programs."

Indirect costs include both the overhead costs originating in an agency performing a grant or contract and the costs of central government services distributed through the statewide cost allocation plan (SWCAP) and not otherwise treated as direct costs. In fiscal year 1986-87, $1,822 was allocated

to the division for SWCAP costs. A portion of these costs may be recoverable if an indirect cost proposal has been prepared and negotiated with the federal government. The potential for indirect cost recovery may, however, be limited by grant provisions.

A division spokesman responded that the three large block grants; Juvenile Justice, Criminal Justice, and Victim's Assistance, place limits on administrative cost claims. In the past the division believed it was not cost effective to prepare an indirect cost proposal since the grants placed limits on or allowed no administrative cost recovery. The division has now indicated it will prepare an indirect cost proposal to comply with state policy.

RECOMMENDATION #9-3

WE RECOMMEND THE CRIME CONTROL DIVISION PREPARE AN INDIRECT COST PROPOSAL TO RECOVER THE COSTS OF ADMINISTERING FEDERAL PROGRAMS.

RESPONSE #9-3

The Montana Board of Crime Control will prepare an indirect cost plan for fiscal year 1989 (using fiscal year 1988 figures), and submit it to the cognizant agency for approval.

9-4. Accounting Issues

(CFDA #20.600)

State law requires agencies to input, before the close of the fiscal year, all transactions necessary to show receipt, use, and disposition of public money in accordance with generally accepted accounting principles. In our testing at Highway Traffic Safety Division, we noted issues concerning the use of improper accounting procedures as listed below. Errors related to federal grant money pertain to U.S. Department of Transportation, National Highway Traffic Safety Administration.

1. Federal reimbursement funds, in the amount of $62,102 for fiscal year 1985-86 expenditures, were received during the fiscal year-end period. The money was incorrectly coded to cash on hand, and no revenue was recorded. The document, clearly marked for fiscal year 1985-86 processing, was not processed by the Department of

Administration until fiscal year 1986-87. The error was corrected in the following fiscal year using prior year revenue adjustments.

2. The division uses a $50 cash imprest fund, which consists of both state and federal moneys, which is not recorded on SBAS. The cash is kept in an unlocked drawer, and access is not limited. State policy requires agencies obtain approval for an imprest cash fund, have procedures establishing use of the fund, and list persons having access to the fund. Division personnel said because the amount is small, seldom used, and has not been replenished in two years, they did not think it necessary to record the money or obtain approval for the account. Based on the limited activity in the fund, we question the need for the fund.

3. A revenue accrual for federal funds in the amount of $7,445 should have been made at fiscal year-end 1984-85 related to expenditures incurred that year. When the money was received in fiscal year 1985-86, revenue was recorded as current year thus overstating revenue for that year. Division personnel stated the omission was not noticed until the beginning of fiscal year 1985-86, and no correction was made.

4. The division accounts for federal programs in separate responsibility centers. Through accounting errors, expenditures in one of the centers was overstated as of fiscal year-end 1986-87. Accounting personnel were uncertain about the proper way to handle the entry involving cash and expenditure abatements. Total federal expenditures at fiscal year-end 1986-87 were unaffected, and according to division personnel, the error will be corrected when the federal reports are completed.

The division could reduce accounting errors by providing training to the individual who prepares and codes SBAS documents. The training should enable the division to comply with state accounting policy when recording transactions.

RECOMMENDATION #9-4

WE RECOMMEND THE HIGHWAY TRAFFIC SAFETY DIVISION:

A. RECORD TRANSACTIONS IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

B. OBTAIN SBAS TRAINING FOR ACCOUNTING PERSONNEL.

RESPONSE #9-4

The Highway Traffic Safety Division concurred with the recommendation

and has subsequently received formal approval for their imprest fund, and their accounting personnel has attended an appropriate SBAS class.

DEPARTMENT OF PUBLIC SERVICE REGULATION (86-32)

10-1. Revenue Recognition

(CFDA #20.301, 20.700)

The department did not follow state policy regarding the recording of revenue at the end of fiscal years 1984-85 and 1985-86. The error discussed below resulted in the misstatement of revenues in various department funds at fiscal year-end 1984-85 and 1985-86.

The department operates several programs for which it pays the program expenses and then bills and collects full or partial reimbursement from federal and state agencies and utility companies. The department recorded revenues for these programs when cash was received.

State policy requires revenues earned on reimbursement projects such as these be recorded when the program expenditures are made. Following this policy ensures matching the revenues and expenditures for reimbursement type projects in the same accounting period. To properly reflect the activity for these programs, the department should record a receivable and recognize revenue for all uncollected reimbursable expenditures incurred prior to fiscal year-end.

We discussed accrual procedures with agency personnel and found they did not fully understand the accrual process. The department records revenue when the reimbursement is received. Department officials did not believe it was necessary to accrue revenues in the Special Revenue Fund because they had obtained an inter-entity loan. Officials also stated they were not aware an accrual was necessary in the General and Internal Service Funds for this instance.

These errors resulted in a $20,618 understatement of Railroad Safety Program and Natural Gas Pipeline Safety Act revenue in the Special Revenue Fund for fiscal year 1985-86. Revenues were also understated in the Internal Service Fund in fiscal years 1984-85 and 1985-86 and in the General Fund in fiscal year 1985-86. Because these revenues are recorded with other revenues of a similar nature, it was not feasible to determine the exact amount of the

misstatements in the General and Internal Service Funds; however, we do not believe the misstatements have a significant impact on the department's financial schedules.

RECOMMENDATION #10-1

WE RECOMMEND THE DEPARTMENT ACCRUE REVENUES ACCORDING TO STATE ACCOUNTING POLICY.

RESPONSE #10-1

The Department concurs with this recommendation and the correcting adjustments have been made for Fiscal Year 1985-1986.

10-2. Improper Fund Classification

(CFDA #20.218)

We determined the department incorrectly recorded expenditures in the General Fund during fiscal year 1984-85. The Motor Carrier Safety Assistance Program (MCSAP) is funded with 80 percent federal funds and 20 percent state funds. The department meets its matching requirements by paying the payroll costs of certain employees who work for MCSAP with General Fund money. Manual records are maintained to determine the total program expenditures, and the federal government is billed for 80 percent of the program costs. In fiscal year 1984-85 the department billed the federal granting agency for 80 percent of program expenditures and recorded the receipts in the Federal Special Revenue Fund. Program expenditures equal to the 80 percent billed to and collected from the federal grantor agency should have been recorded in the department's Special Revenue Fund. This procedure would have properly matched the grant revenues and expenditures. Only a portion of the grant expenditures billed to the federal grantor was recorded as expenditures in the Special Revenue Fund.

Section 17-2-108, MCA, requires that agencies spend non-General Fund moneys prior to spending General Fund moneys whenever feasible. The department could have complied with this law and properly matched Special Revenue Fund revenues and expenditures by transferring expenditures of $25,766 from the General Fund to the Special Revenue Fund. These errors

understated expenditures in the Special Revenue Fund and overstated expenditures in the General Fund by $25,766 in fiscal year 1984-85. Agency officials stated they believed they were properly accounting for the MCSAP program, noting they had received the maximum reimbursement from the federal government. The errors were corrected during fiscal year 1986-87.

RECOMMENDATION #10-2

WE RECOMMEND THE DEPARTMENT PROPERLY ACCOUNT FOR GRANT EXPENDITURES IN THE SPECIAL REVENUE FUND.

RESPONSE #10-2

The Department concurs with this recommendation and the error was corrected during Fiscal Year 1986-1987.

10-3. Annual Railroad Safety Report

(CFDA #20.301)

Section 69-14-115, MCA, requires the Public Service Commission to prepare an annual report relating to the investigation and enforcement of railroad safety laws. The statute also requires that a copy of the report be submitted to the secretary of the U.S. Department of Transportation.

The department does not prepare the annual report. Department officials send reports of violations of railroad safety standards to the Federal Railroad Administration throughout the year. This information is then compiled by the Federal Railroad Administration and sent to the U.S. Department of Transportation. Department officials stated the annual report is unnecessary because the federal government receives the information they need under the current system.

The department is not in compliance with state law by not preparing the annual report. If the department believes an annual report is unnecessary, it should seek legislation to change the requirement. However, until this requirement is changed, the department should prepare an annual report as required by law.

RECOMMENDATION #10-3

WE RECOMMEND THE DEPARTMENT:

A. PREPARE AN ANNUAL REPORT DETAILING INVESTIGATION AND ENFORCEMENT OF RAILROAD SAFETY LAWS AS REQUIRED BY STATE LAW.

B. IF NECESSARY, SEEK LEGISLATION TO ABOLISH THE REQUIREMENT FOR AN ANNUAL REPORT.

RESPONSE #10-3

A. The Department concurs with this recommendation and will prepare an annual report for calendar year 1987 and 1988 as required by law.

B. The Department will review the statute to determine if the requirement for an annual report should be abolished.

COMMISSIONER OF HIGHER EDUCATION (CHE) (87-5)

11-1. Reporting Requirements

(CFDA #84.069)

Federal agencies establish deadlines for receiving reports submitted by grantees. CHE is required to submit its State Student Incentive Grant (SSIG) report to the Department of Education by October 30th each year. CHE did not submit the report by the initial deadline and received extensions through December 15, 1987. However, it did not submit the report until two weeks after that.

CHE officials stated the SSIG report was submitted late because they did not have all the information from various institutions needed to prepare the report. Late submission of federal reports was noted during our last three audits of CHE.

RECOMMENDATION #11-1

WE RECOMMEND CHE SUBMIT FEDERAL REPORTS IN ACCORDANCE WITH FEDERAL REPORTING REQUIREMENTS.

RESPONSE #11-1

Concur. The Office of the Commissioner of Higher Education will continue to work with the various institutions involved to improve the timeliness of their reporting. In addition, we will seek written permission from the Federal government for all needed extensions of the initial report deadlines.

11-2. GSL Program Reviews

(CFDA #84.032)

To ensure schools of higher education are complying with federal regulations, CHE's Guaranteed Student Loan (GSL) Program personnel perform reviews of student files at the schools. Currently, one individual performs the reviews and writes the reports. No one performs a secondary review of the workpapers or reports. According to the GSL procedure manual, the report is to be submitted to the director of the GSL program for approval. CHE performed reviews at 13 schools of higher education during fiscal year 1985-86. We reviewed four of them and noted the procedures performed, the problems identified, and related resolutions of those problems were inadequately documented. GSL personnel stated that documentation is done only when a deficiency is noted. Personnel also stated the secondary review policy is being removed from the manual since personnel are confident with the individual's work.

Since only one person performs the program reviews, the workpapers should contain adequate documentation, in the event the employee is absent or terminates, to enable others to understand what work was performed and the results. In addition, a secondary review provides assurance information in the workpapers or report is correct, assurance the findings are adequately supported, and assurance the findings are reported. CHE officials stated another program reviewer is being hired as part of the expansion of the GSL program. With the additional staff, a secondary review of the work papers can be performed.

RECOMMENDATION #11-2

WE RECOMMEND CHE:

A. ADEQUATELY DOCUMENT GSL PROGRAM REVIEWS.

B. PERFORM A SECONDARY REVIEW OF GSL PROGRAM REVIEW WORKPAPERS AND REPORTS.

RESPONSE #11-2

Concur. During Fiscal years 1988 and 1989, the Guaranteed Student Loan Program is expanding its operations in order to handle the processing function for guaranteed student loans. During this expansion, an additional program reviewer will be hired. With the additional staff member, new procedures will be implemented to ensure that a secondary review of program work papers is performed and documented.

UNIVERSITY OF MONTANA (87-03)

12-1. Property, Plant & Equipment

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Commerce, Department of Defense, Department of Health and Human Services, Department of the Interior, Department of Transportation, National Aeronautics and Space Administration, National Foundation on the Arts and the Humanities, National Science Foundation, Tennessee Valley Authority, Environmental Protection Agency, Action, Department of Energy, and Department of Education.)

The university has a history of recurring problems related to recording property, plant and equipment which has been and continues to be a low priority. The problems outlined below have not resulted in material misstatements in relation to the total value of the fixed assets but are indicative of the types of problems we found. Although we discuss concerns that have been the subject of recommendations in the past, we note the university has made an effort to safeguard and control its property, plant and equipment. As a result, the number of problems identified in this area has decreased.

PAMS Updates

State accounting policy requires the university to capitalize fixed assets, such as equipment and buildings, if the cost or value of the item is $200 or more. The university's accounting and PAMS records were not completely updated at June 30, 1986, or 1987, for acquisition and disposal of equipment items made during May and June. The university adjusted its financial statements for the accumulated effect from May and June activity. This

amounted to net increases of $148,256 and $34,962 to equipment at June 30, 1986 and 1987, respectively.

The documents used to remove equipment from the accounting records are not processed timely. The Controller's Office may receive notices of disposal too late to process the necessary documents in the appropriate fiscal year. The primary reason for not updating PAMS and the accounting records for acquisitions during the last months of the fiscal year is the university does not receive "Property Action Required Lists" (PARL) until the month following payment for the item. University personnel then spend approximately a month analyzing the PARLs to determine if the acquisition should be capitalized. The PARL is a list of equipment and capital expenditures developed to assist personnel in determining whether additional entries to SBAS/PAMS are necessary. According to state accounting policies, the PAMS document and the payment for the asset should be processed concurrently. This procedure would help ensure more timely PAMS and accounting updates.

In addition to purchases of fixed assets, we identified two capital leases for copy machines which should have been recorded on PAMS and the accounting records. University personnel assigned PAMS identification numbers to the copy machines, but did not process the documents to record the assets. The two copy machines are valued at $47,190.

Capitalization of Fixed Assets

We found three instances where the university did not properly capitalize fixed assets. In the first instance, asbestos was removed from the University Center ballroom during fiscal year 1986-87. Generally accepted accounting principles require improvements be capitalized when the cost is substantial or when there is a change in the estimated useful life of an asset. The university's policy is to capitalize expenditures which upgrade buildings to meet current health and safety codes. Costs incurred in asbestos removal meet this criteria and enhance the value of the building. Because the university did not capitalize the asbestos removal costs, the value of buildings and the university's net investment in plant, as recorded at June 30, 1987, are understated by $90,329.

The second instance of improper capitalization concerns the university's purchase of two lots to be used as parking lots. When the houses were

removed from the lots during fiscal year 1986-87, the removal costs were not capitalized as part of the land value. Generally accepted accounting principles state that razing and removal costs, less salvage value of structures located on land purchased, are to be added to the cost of the land. Land is undervalued by $9,729, buildings are overvalued by $97,000 and net investment in plant is overstated by $87,271 on university accounting records at June 30, 1987.

The third instance related to a multi-year construction project. The costs incurred during fiscal year 1985-86 were not included in construction work in process on the accounting records and were not reported on the fiscal year 1985-86 financial statements. State accounting policy states if a capital project is not completed within one fiscal year the portion which is to be capitalized should be recorded as construction work in process. Not capitalizing the fiscal year 1985-86 costs resulted in construction work in process and the net investment in plant being understated by approximately $74,981 at June 30, 1986.

Property management personnel said that the university attempts to record all property, plant and equipment on the accounting records. University personnel did not complete a review to ensure all capital expenditures were capitalized due to time constraints during the fiscal year-end cutoff periods in both fiscal years 1985-86 and 1986-87. University personnel did complete such a review while preparing the fiscal year 1986-87 financial statements and adjusted the statements for the errors and omissions discussed in this section.

Summary

University personnel have estimated it would require two or three employees working full time to adequately monitor and account for all property, plant and equipment items under the current state policy of capitalizing items costing $200 or more. Another option would be to assign responsibility for equipment items at the department level. We made this recommendation in the past but university officials did not concur. Their response is collective bargaining agreements do not enable the university to assign responsibility to individuals. We maintain that, as soon as a piece of equipment is assigned to a location within a department, the department has, in effect, accepted responsibility for the location of that asset.

The problems associated with accounting for a large number of fixed assets is not unique to the University of Montana. The Commissioner of Higher Education (CHE) recently surveyed each campus to determine the percentage breakdowns of equipment items and the associated dollar amounts. This information has been communicated to the Department of Administration along with a suggestion that the state's definition of capital asset be revised from $200 to $1,000. The University of Montana's asset information is representative of the university system as a whole and is presented in the following table:

UNIVERSITY OF MONTANA
CAPITAL INVENTORY
BY ITEM COUNT AND DOLLAR AMOUNT
MARCH 1988

Dollar Value of Inventory Item	Number of Items	Percentage of Total Items	Dollar Value	Percentage of Total Dollar Value
$ 200 - $ 500	5,941	36%	$ 1,901,973	2%
$ 501 - $ 750	1,639	10%	943,752	1%
$ 751 - $1,000	1,259	7%	1,061,755	1%
$1,000 -	7,843	47%	107,270,546	96%
Total	16,682	100%	$111,178,026	100%

Source: Commissioner of Higher Education

The CHE proposal that the state's definition of capital asset be revised to $1,000 would eliminate 53 percent of the university's items and only 4 percent of its dollar value. System-wide, the eliminations would be 67 percent of the items and 4 percent of the dollar value.

The CHE proposal also contains an assertion that the units will maintain a system of control over the assets which fall below their defined capital asset dollar amount. Most of the costs of a fixed asset inventory system are attributable to control over those assets. CHE should determine whether controlling these assets is cost-beneficial. Considerations include the value of the assets and their susceptibility to theft and misuse. Regardless of whether the CHE proposal is accepted, the university should continue its efforts to adequately control and accurately account for its fixed assets.

RECOMMENDATION #12-1

WE RECOMMEND THE UNIVERSITY CONTINUE ITS EFFORTS TO ADEQUATELY CONTROL AND ACCURATELY ACCOUNT FOR ITS FIXED ASSETS.

RESPONSE #12-1

The university concurs with the recommendation, and will continue its efforts to control and safeguard property. It is a fact, however, that the institutional capacity to respond in this area of endeavor is impaired by limited resources and problems of greater priority. It is most strongly recommended that serious consideration be given to the Commissioner of Higher Education's proposal that the state's definition of "capital asset" be revised upward from $200 to $1,000. Items of small value constitute 67% of the total number of items, but only 4% of the value, and they can be protected without having to formally account for them in a time consuming and expensive way.

12-2. Accounting Records

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the federal agencies listed at the beginning of issue 12-1.)

State law requires the accounting records be maintained in accordance with generally accepted accounting principles (GAAP). The Department of Administration's Accounting Division has developed state accounting policies which address GAAP. The Accounting Division develops accounting policies for universities based on the requirements of the National Association of College and University Business Officers and the Governmental Accounting Standards Board. During fiscal years 1985-86 and 1986-87, the Accounting Division issued new accounting policies affecting the university.

The Controller's Office records the university's transactions on SBAS and prepares annual financial statements. As part of the financial statement process, personnel identify errors made in the accounting records and adjust the financial statements to present the university's financial position and results of operations as though the errors had not occurred. The university does not, however, have the opportunity to correct the SBAS records for the fiscal year in which an error occurs. Therefore, the university's SBAS records do not, in all instances, reflect financial activity in accordance with GAAP.

We identified several errors in the accounting records in addition to those identified by the Controller's Office. Some of these errors can be considered to be isolated cases or human error while others resulted from conscious decisions made by university personnel. The quantity of errors indicates review procedures within the Controller's Office were not as effective as they have been in the past. Errors identified are discussed below:

1. GAAP for universities require summer quarter tuition and fees be deferred to the next fiscal year because that is when most of the quarter's activity takes place. The university does not record these moneys as deferred revenue but as deposits payable. According to university personnel, they use the deposits payable account to track the tuition and fees rather than initiate a SBAS subsidiary detail ledger (SDL) number for the deferred revenue account. University personnel further stated they had attempted to use the SDL function but it is not workable with the present system programming. University personnel must make an adjustment to the financial statements. Summer quarter 1986 and 1987 tuition and fees totalled $411,856 and $452,105, respectively.

2. While completing a reconciliation between recorded revenues and letter of credit drawdowns, the university identified three errors involving revenue recognition in the current restricted fund records for fiscal year 1985-86. The errors involved U.S. Department of Health and Human Services grants and the U.S. Department of Education - Supplemental Educational Opportunity Grant (SEOG) Program and College Work Study (CWS) Program. The first instance involved a data entry error. University personnel made an error in coding the document but then wrote over the error with the correct account number. However, data entry personnel entered the wrong code. The accounting records show $79,068 more revenue than was earned because of this error.

   The other two errors resulted in an overstatement of SEOG revenue and an understatement of CWS revenue in the amount of $29,357 as recorded on the accounting records. University personnel processed transactions at fiscal year-end which were intended to make revenues equal expenditures for these programs as required by GAAP. The university adjusted its financial statements for these three errors.

3. The university recognizes student loan (Perkins Loans, formerly National Direct Student Loans) administrative expenditures in one account and later abates these expenditures and charges them to the appropriate accounts. During fiscal year 1985-86, university personnel did not use the same expenditure code to abate as they did to originally record these expenditures. This error caused the accounting records to show an overstatement of administrative

expense and an understatement of bad debt expense of $31,042. However, it did not affect the financial statements as expenditures in total were not misstated.

4. GAAP requires universities to eliminate revenues and expenditures created through interdepartmental services except for those services provided to or by auxiliary enterprises. Auxiliary enterprises are to be accounted for in a manner similar to that of private enterprise. All revenues and expenditures generated between auxiliaries and between auxiliaries and other departments are recognized and reported. The university processed interdepartmental elimination transactions which included sales from a food commissary in one auxiliary enterprise to two other auxiliary enterprise food services. The eliminations caused revenue and expenditures in the accounting records to be understated by $772,917 in fiscal year 1985-86 and $750,650 in fiscal year 1986-87. The university adjusted its financial statements for the fiscal year 1986-87 error.

5. The university improperly recognized revenues and expenditures in the Student Loan Fund when it closed one loan fund into another. Revenues and expenditures were overstated by $7,212. The university should have used a residual equity transfer account to demonstrate the permanent nature of the transfer from one account to the other.

6. During fiscal year 1985-86 the university classified its telephone service as a designated fund activity and charged telephone services expenditures to the Academic Support program. These expenditures should be charged to the Institutional Support program. Although expenditures in total were not misstated, the Designated Fund accounting records contain an overstatement of $1,035,000 in the Academic Support program and a corresponding understatement in Institutional Support program.

7. The university made several errors involving transfer transactions during fiscal year 1985-86. These errors included a) recording intrafund activity as transfers instead of using its established mechanism for moving cash from one account to another within the same fund; b) reclassifying accounts from one fund to another which in turn resulted in intrafund transactions; c) recording an interentity loan as a transfer; and d) recording reclassifications as current year transfers instead of prior year adjustments or adjustments to beginning fund balance. These errors also affected other recorded activity such as expenditures, assets, and liabilities. The misstatements on the accounting records are as follows:

Fund	Account Type	Over(Under) Statement
Unexpended Plant	Assets	$(1,438,916)
	Liabilities	(412,541)
	Fund Balance 7-1-85	(3,050,332)
	Expenditures	(768,524)
	Transfers In	5,077,986
	Move Equity to Net Investment in Plant	(179,782)
	Transfers Out	3,642,771
	Fund Balance 7-1-86	(1,026,375)
Renewal and Replacement Plant	Assets	(893,339)
	Liabilities	18,524
	Fund Balance 7-1-85	(1,110,254)
	Revenue	(103,061)
	Expenditures	768,524
	Transfers In	661,883
	Transfers Out	(778,311)
	Move Equity to Net Investment in Plant	(370,218)
	Fund Balance 7-1-86	(911,863)
Retirement of Indebtedness Plant	Assets	1,438,916
	Liabilities	(499,322)
	Fund Balance 7-1-85	4,710,586
	Revenue	103,061
	Transfers In	2,078,607
	Transfers Out	4,954,016
	Fund Balance 7-1-86	1,938,238

8. GAAP for universities recognizes two types of transfers. Mandatory transfers arise out of binding legal agreements such as bond indentures. Nonmandatory transfers are those made at the discretion of the governing board to serve a variety of objectives. The university classified all transfers in the Retirement of Indebtedness Plant Fund as nonmandatory during fiscal year 1985-86. All of these transfers were debt related. The corresponding transfers out were classified as mandatory. Retirement of Indebtedness Fund transfers in, as recorded on the accounting records, totaled $4.4 million. University personnel indicated they processed the transactions in this manner for simplicity and consistency. If the university had properly classified these transfers, personnel would not have had to adjust the financial statements.

   During fiscal year 1986-87, the university began processing transfers coded appropriately as mandatory or nonmandatory. We noted only one transaction coded improperly. The university processed a $57,500 transaction as a mandatory transfer when it

was actually a nonmandatory transfer. University personnel inadvertently used the wrong coding.

9. The university recorded a fiscal year 1986-87 transfer in for $725,000 in the Retirement of Indebtedness Plant Fund rather than in the Renewal and Replacement Plant Fund. The university did not make use of a feature in the accounting system called minicoding. This feature allows the university to code only specific parts of a transaction and programming in the accounting system will then complete the coding needed to record the transaction. University personnel maxicoded the document; i.e., filled in the coding for each field, and used the wrong fund coding.

10. The university established a procedure designed to assist personnel in recording transfers of cash between activities accounted for in the same fund. Personnel are to use a revenue object code called "Allocations Within Funds." Proper use of this code allows personnel to track these cash transfers without misstating revenues, expenditures, or transfers in and out. We identified errors in the use of this code during both fiscal years under audit. Two errors occurred in fiscal year 1985-86 and twenty-two occurred in fiscal year 1986-87. Personnel used this object code instead of transfers in and out in 10 instances and in the other 12 instances should have used a different revenue code. These errors resulted in the following misstatements which the university corrected in its financial statement presentation.

Fiscal Year	Fund	Account	Over(Under) Statement
1985-86	General Operating	Expenditures	$31,600
		Transfers Out	(31,600)
	Auxiliary	Revenues	25,000
		Transfers In	(25,000)
	Renewal and Replacement	Revenues	31,600
		Transfers In	(31,600)
	Retirement of Indebtedness	Revenues	(25,000)
		Transfers Out	(25,000)
1986-87	General Operating	Expenditures	39,600
		Transfers Out	(39,600)
	Designated	Revenues - Other Income	5,102,668
		Revenues - Allocations Within Funds	(5,114,321)
		Transfers In	(5,800)
		Transfers Out	(17,453)
	Auxiliary	Revenues - Other Income	1,001,120
		Revenues - Allocations Within Funds	(978,920)
		Transfers In	(28,000)
		Transfers Out	(5,800)
	Renewal & Replacement	Revenues - Allocations Within Funds	29,053
		Transfers In	(57,053)
		Transfers Out	(28,000)

11. At June 30, 1986, the university's recorded bonds payable was overstated by $1,026,282. The overstatement occurred because a transaction was duplicated when agency personnel were processing fiscal year-end adjustments. University personnel adjusted the financial statements to correct this error and processed a correcting transaction in fiscal year 1986-87.

12. During fiscal year 1985-86, the university accounted for a new construction project in the Renewal & Replacement Plant Fund. This fund is to provide for renewal and replacement of plant fund assets rather than acquisition of new plant fund assets. New

construction projects should be accounted for in the Unexpended Plant Fund. The university adjusted its financial statements for fiscal year 1985-86 and processed correcting transactions during fiscal year 1986-87. The accounting records at June 30, 1986 contained these misstatements. Expenditures were overstated and construction work in process understated by $816,383 in the Unexpended Plant Fund. Expenditures were understated and construction in process was overstated by $816,383 in the Renewal & Replacement Plant Fund.

13. The university issued two separate series of bonds during fiscal year 1985-86. One bond issue was used to defease some outstanding bonds and to fund new construction and renewal and replacement projects. The second bond issue was a special purpose issue for the acquisition of computer equipment. The Accounting Division, Department of Administration issued specific accounting policies effective July 1, 1985, dealing with these kinds of activities. The university did not follow the outlined procedures and the result was significant misstatements in bond proceeds, transfers in and out, and the movement of equity to the Net Investment in Plant Fund. The misstatements are as follows:

Fund	Account Type	Over(Under) Statement
Unexpended Plant	Liabilities	$ (167,285)
	Revenues - Bond Proceeds	(4,559,506)
	Transfers In	6,756,731
	Transfers Out	(688,878)
	Move Equity to Net Investments in Plant	(2,718,818)
	Fund Balance 7-1-86	(167,285)
Renewal & Replacement	Assets	(342,216)
	Liabilities	515,457
	Transfers In	168,609
	Move Equity to Net Investment in Plant	(1,026,282)
	Fund Balance 7-1-86	(857,674)
Retirement of Indebtedness	Liabilities	(342,216)
	Revenues - Bond Proceeds	7,956,434
	Transfers In	(137,751)
	Transfers Out	7,476,467
	Fund Balance 7-1-86	342,217
Net Investment in Plant	Liabilities	(348,172)
	Investment in Plant - 7-1-86	348,172

Additionally, the university suffered a loss of $366,041 on the defeasance issue and incorrectly coded this transaction as a payment of bond principal rather than a loss on debt extinguishment.

The university made similar coding errors while recording fiscal year 1986-87 bond activity. A gain of $822,196 on a bond defeasance was coded as "other income" rather than "gain on debt extinguishment" and a loss on an early payment of bonds of $442,351 was coded as a payment of bond principal rather than a loss.

14. The university accounted for certain indirect cost recoveries from federal grant projects in the Current Restricted Fund during fiscal years 1985-86 and 1986-87. The moneys have been earned by the university and the university has discretion over how these funds are used. Therefore, these indirect cost recoveries should be classified as an unrestricted fund activity. Fiscal year 1985-86 revenues totalled $12,139 and expenditures of these recoveries totalled $5,916. Fiscal year 1986-87 revenues and expenditures were $12,733 and $7,176, respectively.

15. The university operates the KUFM radio station on campus. During audit testing we noted payroll for KUFM was charged to the expenditure program "academic support." According to the College and University Business Administration, expenditures for KUFM should be classified as "public service." University personnel agreed expenditures for KUFM were misclassified and indicated they would correct the expenditure program charged. For fiscal year 1985-86 KUFM expenditures of $553,896 were misclassified. Fiscal year 1986-87 misclassified KUFM expenditures totalled $617,223.

The university should establish procedures to more closely review coding on documents in order to enhance the quality of accounting data included on SBAS. These procedures are even more important during this transition phase of implementing a new accounting system and having personnel become familiar with new responsibilities. The university should also reclassify its indirect cost recoveries from the Current Restricted Fund to the Current Unrestricted Fund, and reclassify KUFM expenditures from "academic support" to "public service."

RECOMMENDATION #12-2

WE RECOMMEND THE UNIVERSITY IMPLEMENT PROCEDURES TO ENSURE ACCOUNTING TRANSACTIONS ARE RECORDED ACCURATELY.

RESPONSE #12-2

The university concurs with the recommendation. We are in the latter phase of a major accounting system implementation and will begin to improve our review of transactions as well as increase our staff and user training in an attempt to reduce the incidence of initial error.

12-3. Guaranteed Student Loan Processing

(CFDA #84.032)

We tested a sample of 58 Guaranteed Student Loans (GSL) applications processed during the audit period. The university processed approximately 3,500 GSLs in this time period.

A student received two GSLs for the 1986-87 academic year totalling $4,736. This total exceeded the maximum loan amount allowable under the GSL federal guidelines by $2,111. The excess is not guaranteed and, therefore, the university will be liable for the amount if the student defaults. Financial Aid personnel stated they did not notice the first loan the student received and determined the eligible amount without noting the previous loan. The Financial Aid Office's GSL application worksheet includes a step to check for previous loans. In this instance, the preparer did not list the student's first GSL. If established procedures had been followed, the loans would not have exceeded the federal maximum.

The university prepared section of GSL applications requires the preparer to fill in a "School Budget" amount equal to the sum of fees, room and board, books, and miscellaneous expenses for an academic year. The fees are estimated based on the student's residency status. We found two nonresident students whose GSL applications listed resident school budget amounts for the 1986-87 school year. Because the nonresident fees are higher than resident fees, the error understated the students' cost of education and may have resulted in these students not receiving all of the financial aid to which they were entitled. These two students' costs of education were understated by $1,134 and $1,266 respectively.

Financial aid personnel, other than the preparer, spot check the university prepared section of the GSL application. Personnel did not review one application with the incorrect school budget amount, and did not catch the

error on the other application. Improved application review procedures, including written procedures with a checklist of items to verify, would help detect errors in processing GSLs and determining award amounts. The Financial Aid Office should also consider whether it has the resources to review a greater number of applications as this would also help detect errors.

RECOMMENDATION #12-3

WE RECOMMEND THE UNIVERSITY:

A. FOLLOW ITS ESTABLISHED PROCEDURES FOR COMPLETING GSL WORKSHEETS.

B. IMPLEMENT WRITTEN PROCEDURES TO IMPROVE GSL APPLICATION REVIEWS.

RESPONSE #12-3

The university concurs with the recommendations, and have reaffirmed the procedures with the Financial Aid staff who complete GSL worksheets. We are also reviewing our current written procedures and will revise those procedures if necessary to improve GSL application reviews.

12-4. Guaranteed Student Loan Reporting

(CFDA #84.032)

Federal regulations (34 CFR Part 682.612) require schools participating in the Guaranteed Student Loan Program to report changes in participating student's enrollment status to either the central processing company on a student confirmation report (SCR) or directly to the lending institution by letter. The change in the student's enrollment status must be reported within sixty days. During fiscal years 1985-86 and 1986-87, the university submitted SCRs semi-annually and did not notify lending institutions directly. As a result, changes in student's enrollment status were not reported within the required sixty days.

Financial aid personnel indicated notification was not timely because the university was in the process of changing from semi-annual SCR submission to quarterly submission. The university intended to begin quarterly SCR submission as of fall quarter 1986-87, but continues to have difficulty meeting

that goal because of computer problems at the central processing company. Quarterly SCRs will not completely solve the university's problem notifying lenders of enrollment changes within 60 days. The university should, as necessary, directly notify lenders of enrollment status changes by letter to meet the 60-day notification requirement.

RECOMMENDATION #12-4

WE RECOMMEND THE UNIVERSITY SUBMIT STUDENT CONFIRMATION REPORTS AND NOTIFY LENDERS OF ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #12-4

The university concurs with the recommendation. Quarterly reports to the central processor during the academic year allow for reporting student enrollment within the sixty day requirement for those students who complete the term. For those students who withdraw during the term, the Financial Aid Office will reestablish the procedure to notify the lender as soon as the information is available from the Registrar's Office.

12-5. Untimely Grant and Contract Report Submissions

(CFDA #11.999, 313.632, 13.999, 15.999, 66.999)

Federal regulations outline when quarterly and final financial reports are due from agencies receiving federal grants. Deadlines for grant and contract reports are established in the award agreements. According to federal regulations, quarterly reports are due within 30 days of the end of the reporting period; final reports are due within 90 days of the end of the grant period. Of 18 grants and contracts tested, we found 12 instances, involving 6 grants, of untimely report submissions as follows:

Grant Name	Catalog of Federal Domestic Assistance #	Due Date or Period Covered By Report	Date Report Submitted
Probing Ribosomal Function	13.999	2/14/88	2/19/88
MUAPS Core Grant 1986-87	13.632	2/14/88	2/19/88
Rocky Mountain Trumpeter Swan	15.999	5/1/86 - 10/31/86 This should have been a quarterly report covering 5/1/86 - 7/31/86	11/6/86
		Quarter Ended 7/31/87	Not submitted*
		Quarter Ended 10/31/87	Not submitted*
		Final Report through 12/31/87	Not submitted*
Zoobenthos Flathead River	15.999	Quarter Ended 7/31/87	Not submitted*
		Quarter Ended 10/31/87	Not submitted*
		Quarter Ended 1/31/88	Not submitted*
Cellulosic Material Combustion	11.999	Quarter Ended 8/31/87	Not submitted*
		Quarter Ended 11/30/87	Not submitted*
Effects Storm Water Injection	66.999	11/1/86 - 3/31/87 This should have been a quarterly report covering 11/1/86 - 1/31/87	4/23/87

* As of February 1988.

University personnel indicated some reports were late because of heavy workload or other deadlines that had to be met at the same time. The reports not submitted have not yet been prepared because personnel are waiting for a grant billing system to become operational. Untimely reporting could jeopardize future federal funding. The university should obtain written extensions from federal grantor agencies or arrange workload so that federal reports are submitted on time.

RECOMMENDATION #12-5

WE RECOMMEND THE UNIVERSITY:

A. OBTAIN WRITTEN EXTENSIONS FOR THOSE REPORTS WHICH CANNOT BE SUBMITTED ON TIME.

B. ALLOCATE THE RESOURCES NECESSARY TO ENSURE GRANT REPORTS ARE COMPLETED IN A TIMELY MANNER.

RESPONSE #12-5

The university concurs with the recommendations. As resources are available, we will attempt to obtain written extensions whenever possible when reports are expected to be late.

12-6. Overcharge on Final Grant Billing

(CFDA #81.999)

University personnel stated it is the university's common practice to request the full amount of a grant if actual expenditures approximate the grant amount. This procedure is appropriate only for fixed-price grants and contracts. The university should request funds only to the extent of expenditures incurred for grants and contracts funded on a reimbursement basis. We identified one grant for which the full amount of the grant was billed when the university had not incurred that level of expenditures. The university requested the full amount for the Bees Monitor Trace Elements grant, $19,253, although actual expenditures totalled only $19,202. Because this was a reimbursement basis grant, the university should bill only for expenses actually incurred. As a result, the university overbilled the federal granting agency $51. We question the allowability of these costs for federal reimbursement. The university should revise its current practice and bill reimbursement grants and contracts only for the amount of actual expenditures.

RECOMMENDATION #12-6

WE RECOMMEND THE UNIVERSITY BILL REIMBURSEMENT GRANTS AND CONTRACTS ONLY FOR ACTUAL EXPENDITURES INCURRED.

RESPONSE #12-6

The university concurs with the recommendation. As a normal practice, we bill only for those expenditures incurred. We will remind our staff of the importance of this procedure to ensure future billings are billed for the exact amounts expended.

12-7. Student Time Cards

(CFDA #84.033)

Individuals should be paid for the number of hours worked, and adequate documentation should exist to verify the individual is properly paid. We noted three instances during the audit period where this did not occur with student payroll. We tested a total of 22 payroll expenditures involving student employees. Student employee payroll expenditures at the university are approximately $2 million per year.

For one item, the work hour total reported on the student's time card was not mathematically correct and the student was paid an incorrect amount. University personnel stated they do not have sufficient time to verify the mathematical accuracy of the time cards, therefore they did not find the mistake.

Some student employees are required to complete two time cards each month, one for the first half and one for the second half of the month. The totals from the first card are carried forward to the second card which then will contain total hours for the month.

We could not find both time cards for one student in our payroll sample. The university's payroll department only had the time card for the second half of the month. The department the student worked for was supposed to have had the first time card but could not find it. Therefore the university does not have complete support for the amount paid to this student.

In the third instance a student worked two jobs for the university. The rates of pay for the two jobs were reversed and the student was underpaid by

\$2.44. University personnel indicated they had identified the error but did not believe it was cost beneficial to correct it.

RECOMMENDATION #12-7

WE RECOMMEND THE UNIVERSITY IMPLEMENT FURTHER PROCEDURES TO ENSURE STUDENTS ARE PAID THE PROPER AMOUNT FOR HOURS ACTUALLY WORKED.

RESPONSE #12-7

The university concurs with the recommendation. The mathematical accuracy on each time card is checked after the payroll is processed. If errors are discovered, adjustments are made when deemed necessary and practicable. We will issue instructions to our payroll department that all underpayments to employees be adjusted to the actual amount earned regardless of the amount.

12-8. Leave Records and Termination Pay

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the federal agencies listed at the beginning of issue 12-1.)

We tested five employee terminations and found three leave balances which were inaccurate and not supported with adequate documentation. The university's procedures with regard to leave records are not adequate to ensure employees receive the proper amount of termination pay. Two employees were underpaid by \$20 and \$64, respectively. The third employee was overpaid by \$838. These errors in termination pay resulted because the university did not update leave balances in a timely manner. In addition, one individual used more sick leave than was available. According to a university official, the university has taken steps to ensure its personnel technicians receive the training necessary to ensure accurate leave records exist.

RECOMMENDATION #12-8

WE RECOMMEND THE UNIVERSITY CONTINUE TO ENSURE ITS PERSONNEL TECHNICIANS RECEIVE THE TRAINING NECESSARY TO MAINTAIN ACCURATE LEAVE RECORDS.

RESPONSE #12-8

The university concurs with the recommendation. The errors cited in the audit report were made by an employee who no longer works in the Human Resources Office. We believe current employees are very competent in their duties and have the technical expertise and knowledge necessary to perform those duties. Methods and procedures are continuously reviewed to ensure the records are accurately maintained.

12-9. Compensatory Time Records

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the federal agencies listed at the beginning of issue 12-1.)

The university does not maintain central records of compensatory time earned and used for professional, executive, and administrative employees. These employees are allowed to informally keep track of overtime worked and are able to take time off equivalent to the extra hours worked. Some employees are recording compensatory time on their time cards but should not be according to university policy.

The university's policy states non-exempt hourly classified employees not in a bargaining unit are eligible for compensatory time at time and a half up to a maximum of 240 hours for 160 hours worked. The policy further states exempt professional, executive, and administrative personnel may not accrue or record compensatory time but may, at the discretion of their supervisor, take time off approximately equivalent to extra time worked. Employees in bargaining units are subject to the provisions of the applicable bargaining agreement. State policies governing compensatory time require records of compensatory time earned and used. These policies apply to exempt professionals not hired under contract with the Board of Regents.

There is some confusion as to which employees, under current policies, are entitled to earn compensatory time. The results of our audit indicate employees are not always sure what type of overtime compensation they are entitled to. We noted individuals not meeting the compensatory time criteria were recording the accumulation and use of compensatory time on their time cards. The university should communicate what type of overtime compensation applies to each employee.

Our prior audit recommended the university implement a system to monitor the use of compensatory time. In response, the university redesigned its time cards to allow employees to record the previous balance, compensatory time earned and used, and the ending balance. Automating a compensatory time system would require a significant amount of time and effort. It would involve, according to university officials, redesigning the entire payroll system. Officials have indicated they will enhance the payroll system in the future.

The university should communicate the overtime compensation method to each employee and direct supervisory personnel to review time cards for compliance with overtime compensation laws and policies.

RECOMMENDATION #12-9

WE RECOMMEND THE UNIVERSITY COMMUNICATE COMPENSATORY TIME POLICIES TO AFFECTED EMPLOYEES.

RESPONSE #12-9

The university concurs with the recommendation. All policies are published and routed to campus departments to be read by employees and placed in the University policy manual. When resources are available to the Human Resources Department to provide training activities to University employees, personnel policies and procedures will be one of the main topics. Meanwhile, training in matters such as compensatory time will continue to be done on a one-to-one basis with the supervisors and employees as situations arise.

MONTANA STATE UNIVERSITY (87-2)

13-1. Accounting Records

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Commerce, Department of Defense, Department of Health and Human Services, Department of Housing and Urban Development, Department of the Interior, Department of State, Department of Transportation, National Aeronautics and Space Administration, National Foundation on the Arts and the Humanities, National Science Foundation, Small Business Administration, Tennessee Valley Authority, Veterans Administration, Environmental Protection Agency, Action, Agency for International Development, Department of Energy, United States Information Agency, Department of Education, and National Archives and Records Administration.)

Financial information of the university is used by university administrators, regents, legislators, and others to manage and establish funding levels for the university. The university uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. However, in order to conform to generally accepted accounting principles (GAAP), the university makes manual routine adjustments to the SBAS amounts when preparing its financial statements. Section 17-1-102(4), MCA, indicates "all state agencies, including units of the university system ... shall input all necessary transactions to the accounting system ... before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable for in accordance with (GAAP) ..."

We noted the following instances where the amounts the university recorded on SBAS did not comply with state law:

1. Amounts relating to the recording of bond proceeds for defeased bonds, expenditures for construction in progress, and bond payable changes relating to the current year's amount of equipment purchased or construction in progress are not recorded in compliance with state policy.

2. Amounts for equipment, land, building and inventory represent the actual balance as of the previous year.

3. Amounts relating to recording of the use of excess "fixed price" contract moneys and termination pool activities are accounted for in a Restricted Fund rather than an Unrestricted Fund.

4. Amounts do not reflect the recording of interdepartmental eliminations, the total amount due from grantors and the total amounts payable to grantors, or the intrafund cash cutoff eliminations.

5. Amounts include a construction advance to Department of Administration, Architecture and Engineering, for long range building program (LRBP) activity even though no actual construction advance is sent from the university.

6. Amounts include escrow activity for bonds defeased even though the university is no longer liable for those bonds.

Without all financial activity recorded on the state's accounting records, the quality, consistency, and comparability of the resulting financial

information is affected. Most of the above errors occurred because university personnel would rather wait until after SBAS is closed and the actual figures are known to make the necessary adjustments. In addition, the present recording of some information is for management purposes rather than accounting purposes. The university should consider establishing separate responsibility centers to record these GAAP adjustments. This would still provide management information and also ensure financial information, in total, is in accordance with GAAP.

RECOMMENDATION #13-1

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE THE FINANCIAL ACTIVITY RECORDED ON SBAS IS IN ACCORDANCE WITH GAAP.

RESPONSE #13-1

We partially concur. Procedures have been established to accommodate as much fiscal year end activity as possible in the SBAS reports. We are now researching federal regulations to determine whether the loan funds will allow an expenditure for bad debts. The question arises because the new federal regulations do not allow certain federal loans to be written off as uncollectible.

Any unexpected funds remaining in a fixed price contract after the completion of the contract must be identified so that they can be removed from the restricted accounts and placed in designated funds. If those funds lose their identity in a designated fund, such a move may reduce the incentive for the project to be completed in a timely and efficient manner.

13-2. Cash Management

(This issue could affect all of the university's federal assistance. During the audit period, the university expended federal assistance received from the federal agencies listed at the beginning of issue 13-1.)

During fiscal year 1986-87, the university received approximately $19 million of federal, state, and private moneys for grants, contracts, and student aid. The university receives these funds through cash requests (or drawdowns) and reimbursement billings. Because drawdowns and billings are predominantly on a reimbursement basis and are requested on a monthly or longer basis, there is a time lag between an expenditure and subsequent

reimbursement that is filled by using state funds. Based on our analysis of balances in project accounts, we estimated the university's use of state funds to cover project cash shortfalls due to the time lag cost the state approximately $23,845 in fiscal year 1985-86 and $42,119 in fiscal year 1986-87 in lost investment income.

Federal regulations state the recipient shall make drawdowns as close as possible to the time of making disbursements. Section 17-2-108, MCA, requires agencies to use non-General Fund moneys wherever possible before using General Fund moneys. These federal and state regulations provide for the use of frequent drawdowns in order to minimize lost investment income to the state on state funds or to the federal government on federal funds.

According to university personnel, the reasons the university needs state funds to cover project cash shortfalls is because of the timing and receipt of drawdowns, and billings and also the time involved in preparing billings. Drawdowns are generally made once a month after the payroll costs are paid. Billings are generally made monthly or quarterly. If the university were to request project funds more frequently and alter provisions in contracts to allow more frequent billings, it should help reduce the amount of state funds needed to temporarily support the projects.

In our prior audit we also recommended the university request moneys in a manner which would minimize the necessity for the state to support projects. Previously the university's drawdowns were made at the end of the month but prior to the payroll costs being paid. These drawdowns did not include an estimate for the payroll costs and therefore the university did not get reimbursed for the payroll costs until the following month's drawdown. The university altered the timing of the drawdowns so they were made after the payroll was paid. This helped reduce the time lag. A certain amount of time lag can be expected, however, we believe the university could reduce the time lag further by projecting its cash needs more closely and requesting grant funds as needed.

RECOMMENDATION #13-2

WE RECOMMEND THE UNIVERSITY REQUEST GRANT MONEYS IN A MANNER WHICH WILL MINIMIZE THE NECESSITY FOR THE STATE TO ADVANCE CASH TO GRANT PROGRAMS.

RESPONSE #13-2

We concur. When this issue was brought to our attention in the previous audit report, we changed our procedures so that the letter of credit drawdowns occurred mid-month, after the main payroll each month. This significantly reduced the need for state cash advances to the grant programs. In addition, we have attempted to order federal funds based on planned needs, such as for the quarterly disbursement of financial aid funds or when a major expenditure is anticipated.

In the past, we have been criticized by the federal auditors for having excess federal cash on hand. We are making every attempt to balance the concerns of the federal agencies with the concerns voiced by the state auditors, and we will continue to plan and anticipate needs to the best of our ability.

13-3. Guaranteed Student Loans

(CFDA #84.032)

Federal regulations require schools to notify lenders who issue students Guaranteed Student Loans (GSL) whenever the students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The university notifies GSL lenders of changes in students' enrollment status on a semi-annual Student Confirmation Report (SCR). After university personnel complete the SCR and send it back to a central processing company, the company uses the information to notify applicable lenders. Federal regulations require the university to return the SCR report within 30 days of its receipt. For three out of four SCR reports tested, the university did not submit the SCR to the central processing company within 30 days of receipt. University personnel indicated this occurred due to problems encountered when it revised its manual reporting system to an automated one.

Federal regulations also require the university to report the enrollment status change directly to the lender if it does not expect to submit its next SCR within 60 days. For five of six students tested, the university did not

report enrollment status changes directly to the lenders, as required by federal regulations. University personnel indicated they relied on the SCR report to notify lenders because the computer report used to identify the students did not always contain accurate and complete information. University personnel indicated the computer reports have been correct since fall quarter 1987.

To improve the ability to collect GSLs the university should notify lenders in compliance with federal regulations.

RECOMMENDATION #13-3

WE RECOMMEND THE UNIVERSITY:

A. SUBMIT ITS STUDENT CONFIRMATION REPORT TO THE CENTRAL PROCESSING CENTER ON A TIMELY BASIS.

B. USE ITS COMPUTER REPORTS TO IDENTIFY STUDENTS AND NOTIFY LENDERS DIRECTLY OF ENROLLMENT CHANGES WHEN TIMELY NOTIFICATION CANNOT BE MET BY THE STUDENT CONFIRMATION REPORT PROCESS.

RESPONSE #13-3

We concur. Prior to April 9, 1985, the exchange of information required under federal regulations between the institutions, lenders, and loan guarantee agencies was a labor intensive manual process. Recognizing our inability to adequately comply with the federal regulations due to our staffing levels, we automated our reporting system to permit a tape exchange between agencies and to verify enrollment status. Our records indicate that all student confirmation reports have been submitted within 30 days of receipt since October 1986, and that lenders are now being properly informed of enrollment changes as specified in the federal regulations.

13-4. Student Financial Aid Refunds

(CFDA #84.063)

According to federal regulations, if a student who had received student financial aid, other than college work-study, is due a refund, the university must return a portion of the refund to the student financial aid program. According to university policy, when a student seeks a withdrawal, the student must receive the signatures of various campus offices to ensure any financial

obligations of the student are met prior to the withdrawal. A financial aid officer is one of the signatures required.

We tested eight student withdrawals in which the student received a refund and also received student financial aid. Of the eight tested, we noted one exception. The student withdrew after the cutoff date for refunds for fall quarter 1985, but was granted a retroactive withdrawal. This retroactive withdrawal entitled the student to a refund. Because the financial aid office was verbally notified of the withdrawal and was not aware the withdrawal was retroactive, the student received the entire refund even though the student had received a Pell grant. The Pell program should have been reimbursed $228.

To avoid misunderstandings on the effective date of withdrawals, the university should require the actual signature of a financial aid officer on the withdrawal form.

RECOMMENDATION #13-4

WE RECOMMEND THE UNIVERSITY FOLLOW ITS POLICY AND REQUIRE THE SIGNATURE OF THE FINANCIAL AID OFFICE ON ALL STUDENT WITHDRAWALS.

RESPONSE #13-4

We concur. All student withdrawals now require the signature of the financial aid administrator and/or his designated representative if the student was a financial aid recipient.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY (86-6)

14-1. Leave Benefits

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the following federal agencies: Department of the Interior, Department of Labor, National Science Foundation, Environmental Protection Agency, Department of Energy, and Department of Education.)

Office of Management and Budget "Circular A-21" identifies allowable costs which the college may charge to federal grants. It states employee benefits such as annual leave, sick leave, and holidays are allowable to the

extent the cost is equitably allocated to all related activities, including grant programs.

The college charges the hours of leave taken by an employee during a pay period to the area the employee is working on during that pay period. However, using this method may result in charging grants for leave taken in excess of the amount earned while working on the federal project. Conversely, using this method may result in charging state funds for leave taken after the grant project ended but earned while working on the project. The college indicated it charges these costs in this manner because it did not know of a cost effective method of allocating these costs.

The college could equitably charge these benefits to grants for reimbursement by applying a factor to direct salaries. This factor would include leave expenses in the payroll expenses charged to each grant. Another method the college could use would be to include leave benefits in its indirect cost base.

RECOMMENDATION #14-1

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES TO CHARGE FEDERAL GRANTS FOR LEAVE BENEFITS EARNED BY EMPLOYEES WHILE WORKING ON GRANTS.

RESPONSE #14-1

Concur. The College is currently in the process of developing procedures to charge the leave expenses. Charges for leave benefits will be implemented by fiscal year end.

14-2. Cash Management

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the federal agencies listed at the beginning of issue 14-1.)

During fiscal year 1985-86, the college received approximately $1.2 million of federal moneys for federally assisted grants, contracts, and student aid. The college receives these funds through cash requests. We noted excessive cash balances (cash at the end of a month exceeding the

subsequent months total expenditures) in one out of two months tested in each fiscal year 1984-85 and 1985-86.

The prior audit indicated the college had excess cash. The college did not begin to take corrective action to manage its cash until part way through the current audit period. Also, college officials indicated there is a time lag from the request to the receipt of funds from the federal government. College personnel stated the time lag required the college to project and request their cash needs in advance in order to ensure sufficient cash was available. In addition, for one month tested, the individual in the Business Office requesting the funds asked the student aid officer how much funds he needed. The individual did not realize the student aid officer had indicated the need for the entire semester.

The March 1984 student financial aid audit guide indicates if the school is on the cash request system, as the college is, the amount of cash in the accounts should not exceed one month's need. Schools such as the college, receiving annual advances in excess of $120,000 and for which a continuing relationship with the Department of Education has existed for at least one year, may be financed through a letter-of-credit rather than the cash request system. The college has asked the Department of Education to be financed through a letter-of-credit method. The letter-of-credit system should help eliminate the delay in receiving the funds. In addition, the college has developed better methods of forecasting needs. Because the college addressed this issue, we disclose it for information purposes only and make no recommendation at this time.

14-3. Pell Validations

(CFDA #84.063)

Students applying for a Pell grant send their applications to a central processor. This processor provides each applicant with a Student Aid Report (SAR). Students then take the SAR to the college, which determines the award amount. The Pell grant program regulations require the college to verify certain information submitted on the student's SAR prior to disbursing funds to the student. In addition, the college must complete the Validation Status Code on the SAR. By completing this section of the SAR, the college

certifies it validated the SAR in accordance with the prescribed federal procedures.

We examined five Pell validations. Of these five, we noted one instance where the college did not indicate the proper validation code on the SAR. The college indicated the information on the SAR was accurate even though the SAR contained a $96 error. The individual's tax return indicated $96 more in income than was reported on the SAR. In accordance with federal regulations, the college should have indicated the information was within the tolerable limits. When the error is within the tolerable limits, the college can award the student the amount without reprocessing the SAR. Therefore, in this instance, the student received the proper Pell award.

RECOMMENDATION #14-3

WE RECOMMEND THE COLLEGE PROPERLY VALIDATE PELL APPLICATIONS.

RESPONSE #14-3

Concur. The student did receive the proper Pell award. Extra precautions will be taken to insure proper validation coding and eliminate errors of this type.

14-4. Disaster Recovery Plan

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the federal agencies listed at the beginning of issue 14-1.)

Disaster recovery procedures for computer operations provide for continuation of operations following a disaster such as fire, flood, or earthquake. The college does not have a formal written contingency plan for the recovery of data processing applications following a disaster. Lack of a written plan could cause unnecessary delay and excessive costs in recovery of critical applications. The college's critical applications include payroll, financial aid, accounts receivable, and registration.

College personnel indicated they just purchased a new computer system. They said they knew of no one else in the northwest with a similar computer that the college could use as a backup in case of a disaster. The college

should provide for the replacement of records that may be destroyed and the continuity of operations following a major hardware or software failure. The college can accomplish this through either manual or other computer systems.

RECOMMENDATION #14-4

WE RECOMMEND THE COLLEGE FORMALIZE A WRITTEN DISASTER RECOVERY PLAN FOR CRITICAL DATA PROCESSING APPLICATIONS.

RESPONSE #14-4

Concur. The Director of the Computer Center is currently developing a disaster plan. This plan will be implemented by fiscal year end.

EASTERN MONTANA COLLEGE (EMC) (86-7)

15-1. Recharge Centers

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Commerce, Department of Health and Human Services, Department of the Interior, National Science Foundation, Small Business Administration, Department of Education, and Truman Scholarship Foundation.)

EMC operates eight recharge centers within the Designated Subfund. The eight centers are: Central Stores, Copy Room, Motor Pool, Printing, Computer, Maintenance, Telephone, and Mail. These centers provide services on a reimbursement basis for other EMC departments or offices.

During fiscal year 1985-86, the eight recharge centers had revenues which exceeded expenditures by $201,024 and ending fund balances of $838,595 as shown below.

EMC RECHARGE CENTERS
Fiscal Year 1985-86

Recharge Center	Revenues	Expenditures	Excess Revenues Over (Under) Expenditures	Fund Balance June 30, 1986
Stores	$ 68,633	$ 62,506	$ 6,127	$ 71,367
Copy Room	100,026	75,619	24,407	77,273
Motor Pool	21,109	25,811	(4,702)	25,819
Printing Services	166,975	166,094	881	19,814
Computer	674,206	614,025	60,181	286,704
Maintenance Service	798,743	694,125	104,618	299,208
Telephone Service	392,250	395,847	(3,597)	43,157
Mail	99,176	86,067	13,109	15,253
Total Recharge Centers	$2,321,118	$2,120,094	$201,024	$838,595

Source: Prepared by the Office of the Legislative Auditor

Users of these services paid $201,024 more than the costs of the services provided, which indicates most of the individual recharge rates may have been too high during fiscal year 1985-86. The accumulated fund balances of $838,595 indicate revenues exceeded expenditures in prior years also. The departments or offices which pay for designated goods and services are funded in part by the state General Fund and/or in some instances by federal programs. It was not practical for us to determine the portion of the $838,595 fund balance attributed to General Fund or federal program charges.

In order to minimize the impact on the General Fund and ensure users are not overcharged, EMC officials should revise the recharge rates to ensure the revenue from the recharges approximates the cost of the services provided. The rates should be adjusted to absorb the $838,595 fund balance over future periods. The recharge operations should be periodically reviewed during the year and the rates adjusted as necessary.

RECOMMENDATION #15-1

WE RECOMMEND EMC REVIEW RECHARGE RATES TO INSURE THE RATES APPROXIMATE THE COST OF THE SERVICES PROVIDED AND REVISE RATES ACCORDINGLY.

RESPONSE #15-1

Your audit recommendations pertaining to EMC's recharge centers warrants a comment from the Office of the Commissioner of Higher Education. I do not take issue with your recommendation requiring EMC to review rates charged in the various recharge centers. Your recommendation seems to imply, however, that revenues should equal expenditures on a year to year basis and that fund balance is the equivalent of "available cash balance". Neither implication is correct. As to the fund balance amounts, fund balance consists of cash, accounts receivable and inventory. The stores and maintenance service shops must carry a considerable amount of inventory if they are to provide effective service.

The matching of revenues and expenditures is more complex. The concept of recharge centers was thoroughly discussed during the 1979 legislative session. At that time the legislative subcommittee advised the campuses that they should all establish recharge centers and employ many of the concepts and procedures that were being used or implemented at MSU. There was a consensus that the maintenance centers and computer centers should be managed using recharge methods that would provide for the replacement of such costly capital items as computer mainframes. Expenditures for capital replacements do not flow evenly from year to year. A $10,000 capital expenditure, for instance, could cause a recharge center's expenditures to exceed revenues in the year the acquisition took place. In order to accumulate funds to replace the asset at a future date, the revenues would have to exceed expenditures in order to accumulate replacement funds in the fund balance. Such a life cycle evaluation must be taken into account when recharge rates are reviewed and fund balances are analyzed.

Another method of addressing the problem of capital accumulation in the recharge centers would be to establish depreciation guidelines for the various recharge center activities and clearly identify that portion of accumulated fund balances that is earmarked for capital acquisition or replacement. The "sinking fund" approach would probably help clarify the concerns of auditors, legislators and other financial statement readers in regards to the appropriate level of fund balances.

I will suggest to the Commissioner and the Board of Regents that we develop a financial accounting policy for recharge centers for the University System in the coming biennium.

15-2. Program Charges

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the federal agencies listed at the beginning of issue 15-1.)

As discussed in the previous section, federal funds may have been overcharged for services provided by the recharge centers. Federal regulations specifically prohibit any charges in excess of costs or interest costs to be included as a charge to federal programs. We noted that the computer center users fee included a 10.8 percent surcharge to meet the debt service requirements on the bonds to acquire the new computer. The interest on the bonds is not an allowable cost under federal regulations. It was not practical for us to determine the dollar effect on federal programs. EMC officials explained that any impact on federal programs would not be significant. Provisions should be made to ensure only allowable costs are charged to federal programs.

RECOMMENDATION #15-2

WE RECOMMEND EMC:

A. DETERMINE IF UNALLOWABLE RECHARGE COSTS HAVE BEEN PAID BY FEDERAL PROGRAMS.

B. REFUND ANY UNALLOWABLE COSTS TO FEDERAL PROGRAMS.

RESPONSE #15-2

A. Concur. There are no unallowable costs charged to Federal programs.

B. Concur. There are no unallowable costs to refund to Federal programs.

15-3. Pell Grant Awards

(CFDA #84.063)

Federal regulations require institutions to award Pell grants only to students who have demonstrated eligibility. During the audit period, EMC inadvertently awarded Pell grants to three students who had not submitted financial aid forms documenting their eligibility. The college subsequently obtained the necessary financial aid forms from one of the students. For the

remaining two students, EMC was unable to obtain the financial aid forms necessary to document student eligibility. As a result of the error, EMC used state funds to repay the Pell program $1,900 for the two Pell grant overawards.

RECOMMENDATION #15-3

WE RECOMMEND EMC OBTAIN ALL REQUIRED DOCUMENTATION PRIOR TO AWARDING PELL GRANTS.

RESPONSE #15-3

Concur. It is the policy of the College, in accordance with Federal regulations, to require all documentation prior to awarding PELL grants. This recommendation is the result of two instances where preliminary award estimates were erroneously transferred to the students records as awards. The resulting overawards were refunded by the College to the PELL program. The procedure of using estimates has been discontinued.

15-4. Guaranteed Student Loan Program Reporting

(CFDA #84.032)

Federal regulations require schools participating in the Guaranteed Student Loan (GSL) program to report changes in participating student's enrollment status to either the processing center on a student confirmation report (SCR) or directly to the lending institution by letter. The change in the student's enrollment status must be reported within sixty days. During the audit period, EMC only submitted the student confirmation report semiannually and did not notify lending institutions directly. As a result, changes in student's enrollment status were not reported within the required sixty days. In order to efficiently comply with the federal regulations, it may be necessary for EMC to develop a computer program to review student files from the registrar for changes in enrollment status. We estimate the development of this computer program can be accomplished within existing resources of the college.

RECOMMENDATION #15-4

WE RECOMMEND EMC COMPLETE AND SUBMIT STUDENT CONFIRMATION REPORTS IN COMPLIANCE WITH FEDERAL REGULATIONS.

RESPONSE #15-4

Concur. The College does complete and submit student enrollment confirmation reports in compliance with federal regulations. Federal regulations only require semi-annual confirmation reports.

The College will develop a computer program to identify changes in a student's enrollment status on a quarterly basis. This information will be submitted to the contract central processor so that they may notify the lender as required.

15-5. National Direct Student Loan Procedures

(CFDA #84.038)

The objective of the National Direct Student Loan (NDSL) program is to provide long-term, low interest, deferred repayment loans to eligible students at postsecondary educational institutions. Federal regulations require an institution to conduct an exit interview with each student borrower before he or she leaves the institution. During the interview, the institution must tell the borrower that the loan must be repaid in accordance with the repayment schedule. The repayment schedule shows the borrower the total amount of the loan, the repayment amount, and the date each payment is due. If a student is not given an exit interview, the institution is required to mail the appropriate information to the student.

During our testing of ten student aid files, we noted one instance that EMC did not give an exit interview to a graduating student with a National Direct Student Loan. Also, the required information was not mailed to the student. EMC personnel indicated that the student's name was overlooked when the list of graduating students with NDSLs was reviewed. Based on our work, EMC has a system to provide exit interviews; however, the system could be improved if the student list documented which students received exit interviews or were mailed the information. A review of the list could then detect any students which were overlooked.

RECOMMENDATION #15-5

WE RECOMMEND EMC REVIEW STUDENT LISTS TO DETECT STUDENTS NOT RECEIVING NDSL EXIT INTERVIEWS.

RESPONSE #15-5

This was a single instance of oversight resulting when two sisters graduated at the same time. The exit interview was conducted for one but not for the other. The purpose of the exit interview is to review with the student the terms and conditions of the loan to avoid misunderstandings during the repayment period. Federal regulations allow that the exit be conducted by certified mail when an oversight occurs or the student fails to keep an appointment for the interview. The exit interview in question was completed in accordance with federal regulations. The student is current on the loan and has a present balance of $169.27.

NORTHERN MONTANA COLLEGE (NMC) (87-04)

16-1. Cash Management

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the following federal agencies: Environmental Protection Agency and Department of Education.)

The business office administers the financial operations of Northern Montana College. As part of this function, the office manages cash flows. In the following four sections, we discuss situations where improved cash management procedures can increase investment earnings on state funds and ensure compliance with state or federal laws and regulations.

Timely Drawdowns

In the two fiscal years covered by our audit, we noted several instances where the college obtained interentity loans for the Pell grant account. The college has a letter of credit for obtaining federal reimbursement for Pell grant expenditures. The federal funds are available as they are spent. One $50,000 loan to the Pell account (CFDA #84.063), which occurred in the spring of 1986, remained outstanding for six weeks. In September 1987, the college borrowed $300,000 and the accounting records showed the loan was repaid October 16, 1987. These two delays in drawing Pell grant funds cost the

General Fund an estimated $1,046 in lost investment income using the average annual Treasury Fund rate.

During our review of college activity subsequent to our audit period, we observed a negative cash balance of $11,443 in the Restricted Fund. The college corrected the cash deficiency with a $25,000 loan. However, SBAS records showed that the negative balance existed for more than seven business days in violation of state law. More timely drawdowns of federal letters of credit could have prevented the negative cash situation.

The college has indirect cost recovery rates for some of its federal grants. The grant agreements allowed the college to claim indirect costs up to a set percentage of direct costs charged to the grants. We observed that the college did not draw all of the indirect costs for its grants by the end of the fiscal year. For example, the college drew $10,822 of indirect and administrative costs for fiscal year 1986-87 on December 14, 1987. The delay cost the General Fund $272 in investment income.

College management indicated that it was necessary to delay final draw of administrative costs associated with financial aid grants until after preparation of the annual report. The college makes some adjustments between financial aid grant programs during this period. As a result, the exact amount of administrative recoveries possible is not known. In addition, costs associated with certain college work study assignments are not known until after the close of the fiscal year.

Through an examination of expenditure records we determined that final direct costs could be accurately estimated. We also noted that some delayed indirect cost recoveries affected grants other than financial aid. By improving cash management procedures, NMC can make timely drawdowns of federal funds.

Loan Authorization

State law permits loans between accounts under specified conditions. The Department of Administration may authorize a transfer of unrestricted money from one account to another provided the agency presents reasonable evidence that the transfer can be repaid within one calendar year. The loan must be recorded in the state's accounting records. We observed one instance where the college did not repay an interentity loan within the required time. In

another case, the college bypassed loan procedures by recording expenditures in the wrong fund.

In January 1986, the college requested and received authorization for an interentity loan from the unrestricted operating fund to the restricted fund. The approval document indicated the loan would be repaid June 30, 1986, however actual repayment occurred a year later on June 26, 1987. The college did not renew authorization of the loan with the Department of Administration.

Accurate Records

In fiscal year 1986-87, college accounting records showed grant expenditures in the agency fund rather than the restricted fund. The restricted fund lacked the cash to pay the costs of the grant. Rather than obtain authorization for an interentity loan, and accrue revenue in the restricted fund, college accountants transferred the expenditures. As a result, college accounting records understated revenues and expenditures by $6,968 in the restricted fund. The college financial statements reflect an adjustment for this misstatement. Accounting personnel adjusted SBAS in the subsequent year to correctly record the activity.

The college invests cash balances of its various accounts in the Short Term Investment Pool (STIP) operated by the Board of Investments. In June 1986 and 1987, the college sold all its STIP holdings as a bookkeeping convenience to avoid recording investment revenue accruals. Since the Board of Investments now calculates and posts all STIP accruals, the college's sale of STIP units uses personnel time and loses investment income for the college accounts with no apparent benefit to the college. NMC has a fiduciary responsibility to Auxiliary, Endowment, and Agency accounts to keep excess cash invested in order to maximize investment income. We determined the impact of the procedure used by the college to have an immaterial effect on accounts with federal funds.

An effective cash management system will enable the college to recover federal funds closer to the time expenditures occur. More timely drawdowns will decrease the need for interentity loans, thereby increasing investment income on state funds. With better cash control, the college can more easily

ensure the accuracy of the accounting records and compliance with applicable regulations.

RECOMMENDATION #16-1

WE RECOMMEND THE COLLEGE IMPLEMENT CASH MANAGEMENT PROCEDURES TO :

A. ENSURE THE TIMELY DRAWDOWN OF GRANT FUNDS.

B. OBTAIN PROPER AUTHORIZATION FOR ALL INTERENTITY LOANS.

C. RECORD REVENUE AND EXPENDITURES IN THE PROPER FUND.

RESPONSE #16-1

A. Concur. Cash management procedures are being established to ensure timely drawdowns. Procedures will be implemented by June 30, 1988.

B. Concur. Inter-entity loans will be reviewed as part of NMC's cash management procedures.

C. Concur.

16-2. Previous Financial Aid

(CFDA #84.063, 84.032)

Federal regulations (34 CFR 668.14) provide that an applicant for student financial aid is not eligible for additional aid under the Pell or campus based aid programs if the student owes a refund under a previous student aid grant award. Other regulations restrict the eligibility of students who are in default on direct or guaranteed student loans.

The college requires the applicant sign a statement listing schools previously attended and declaring that no refunds are owed or no loans are in default. In the 20 student files we tested, four did not contain the required statement from the student concerning attendance and financial aid at other schools.

Since proper repayment of past overawards or loans is a condition of eligibility, the files noted above do not adequately document the students' eligibility. Therefore, we question the costs associated with these four

students. These costs include Pell awards of $6,603 and a Guaranteed Student Loan of $2,000.

RECOMMENDATION #16-2

WE RECOMMEND THE COLLEGE OBTAIN SIGNED DOCUMENTATION FROM STUDENT APPLICANTS THAT PREVIOUS FINANCIAL AID OBLIGATIONS HAVE BEEN MET.

RESPONSE #16-2

Concur. Procedures have been implemented in the Financial Aid Office to ensure that applications are not processed until all required assurances are received.

16-3. Records Retention

(CFDA #84.032)

Federal regulations (34 CFR 682.612) require the college to submit periodic reports to Guaranteed Student Loan (GSL) lenders to confirm the enrollment status of loan recipients. The college registrar prepares these reports at the request of the financial aid director. The registrar discarded the confirmation reports for fiscal year 1985-86. As a result, we could not verify whether the college completed confirmation reports for nine of the 14 GSL recipients tested. According to federal regulations (34 CFR 682.612), the college must retain financial aid records for five years. The registrar said she did not know the confirmation reports had to be retained.

RECOMMENDATION #16-3

WE RECOMMEND THE COLLEGE RETAIN ALL FINANCIAL AID RECORDS FOR FIVE YEARS IN COMPLIANCE WITH FEDERAL REGULATIONS.

RESPONSE #16-3

Concur. Procedures are being adopted to require the college registrar to forward copies of all confirmation reports to the Financial Aid Office for filing and retention.

16-4. Check Releases

(CFDA #84.007, 84.032, 84.033, 84.038, 84.063, 84.069)

The college prepares and disburses financial aid checks to students. In addition, the college disburses loan checks from financial institutions. In order to verify that the qualified student receives aid funds at the right time, the student signs and dates a check release form when the check is received.

In the 20 student aid files we tested, 14 had undated check releases and one had no check release. As a result, we could not determine whether the college held the checks until the student enrolled as required by federal regulations (34 CFR 682.612). College management stated that the check releases should be signed and dated. Management attributed the problem to oversight by personnel during the rush of registration.

RECOMMENDATION #16-4

WE RECOMMEND THE COLLEGE ENSURE THAT STUDENTS SIGN AND DATE CHECK RELEASES BEFORE COLLEGE PERSONNEL RELEASE STUDENT AID CHECKS.

RESPONSE #16-4

Concur. Procedures have been implemented to insure that releases are signed and dated prior to the release of all financial aid moneys.

WESTERN MONTANA COLLEGE (86-8)

17-1. Prior Audit Recommendations

(CFDA #84.032)

We performed a financial-compliance audit of the college for the two fiscal years ended June 30, 1984. The report contained 19 recommendations still applicable to the college. Of these 19 recommendations, the college implemented 11, partially implemented 7, and did not implement 1. The recommendations partially implemented concern:

1. accounts receivable procedures;

2. a federal reporting issue similar to those discussed in the "Federal Reporting" section below;

3. property accounting;

4. two federal assistance issues for which the college has taken action and is waiting for a federal response;

5. an inventory issue which the college is addressing; and

6. an $82 financial aid GSL overaward. As of November 20, 1986, the college had neither contacted the student nor repaid $82 on the student's behalf, as the college had indicated it would do in a December 1985 letter to the U.S. Department of Education. On August 26, 1988, a college official said the college would repay the loan by September 8, 1988, if the student has not repaid it.

The recommendation not implemented concerns improving data processing controls and is discussed in the "Data Processing Controls" section (17-5).

17-2. <u>Food Service Contract</u>

(CFDA #84.033)

The college contracted with a food service to manage and operate its dining service. The food service employs the college's students, including College Work-Study students, and the college processes the food service's student payroll. The contract between the college and the food service states:

> "wages, hours of work, fringe benefits, and general conditions of employment of employees must be established and maintained in a manner consistent with the employee relations, state of Montana policies and prevailing wage rates, practices and conditions established by the [college] with respect to the other campus employees."

It is the state's and the college's policy, as well as good management practice, for supervisors to approve time cards, ensure time cards agree to time summaries, and approve time summaries. Following these policies and practices provides a good control for ensuring employees are paid the proper amount for work performed.

The college processes the food service's student payroll from a summary provided by the food service. The summary shows the number of hours each student employee worked. We reviewed the January 1986 summary, which was

not approved by the food service manager. We reviewed three time cards that food service personnel believed supported the January 1986 summary. The time cards were not dated, neither the employee nor the employee's supervisor had signed any of the time cards, and the total hours on the time cards did not agree to the summary. Therefore, we question the allowability of $9,289 of federal College Work-Study disbursements made to student employees of the food service contractor; $4,750 in fiscal year 1984-85 and $4,539 in fiscal year 1985-86.

Because good management practices and federal regulations require the college to maintain adequate supporting documentation of College Work-Study disbursements, the college should enforce its contract with the food service. College personnel stated they discussed this issue with the food service manager, who promised to implement the necessary changes, but they have not verified the changes were implemented. The college should ensure that the food service implements the changes required to comply with its contract.

RECOMMENDATION #17-2

WE RECOMMEND THE COLLEGE:

A. ENFORCE ITS CONTRACT WITH A FOOD SERVICE CONTRACTOR TO ENSURE COLLEGE WORK-STUDY DISBURSEMENTS ARE ADEQUATELY SUPPORTED.

B. REFUND $9,289 OF QUESTIONED FEDERAL COLLEGE WORK-STUDY COSTS TO THE DEPARTMENT OF EDUCATION.

RESPONSE #17-2

A. Concur.

B. Disagree.

The recommended changes were implemented during the Fall of 1987 and verified by college personnel. However, effective January 31, 1987 the food service contractor terminated his contract and the College took over operations. The College is currently managing the food service operation and accordingly payroll records are now maintained by the College.

We disagree with refunding the $9,289 of questioned federal college work-study costs to the Department of Education. The students were paid in good faith by the contractor. If there had been problems with the hours

paid, our payroll clerk would have been made aware of the situation by the students and the food service contractor notified of any discrepancy. Our cashiers in the business office distribute the pay checks directly to the students.

The food service contractor was faced with management turnover. The latest manager was unsure which supporting time cards filed away related to which payroll. We attempted to do a full audit of the contractors payroll records only to find that records a year old were discarded by the contractor. Accordingly we are left without an avenue to accurately defend the questioned work-study costs. Western will seek a waiver from the Federal Department of Education.

17-3. Federal Reporting

(CFDA #84.007, 84.033, 84.038)

Federal regulations require schools receiving financial aid moneys to complete and submit an annual Application and Fiscal Operations Report (FISAP), which summarizes financial aid activity at the school for that fiscal year. During our review of the college's FISAPs for fiscal years 1984-85 and 1985-86, we noted the following errors.

1. The college included personal service expenditures of a contractor in the amount of institutional expenditures reported in the Maintenance of Effort section of the fiscal year 1984-85 FISAP. The college should exclude these expenditures because it does not manage and control the contractor's workers. As a result, the college overstated its reported maintenance of effort on the fiscal year 1984-85 FISAP by $24,002.

2. College personnel made a $10,800 mathematical error in computing the college's maintenance of effort for fiscal year 1984-85. This error caused maintenance of effort to be understated on the fiscal year 1984-85 FISAP by $10,800.

3. College personnel used an incorrect rate in computing the cost of board and room for residence hall advisors and managers. This error resulted in a $2,100 understatement of the maintenance of effort reported on the college's fiscal year 1985-86 FISAP.

College personnel stated the first error noted above occurred because the employee who completed the FISAP had been recently hired and was not yet familiar with the college's accounting system. They said the other mistakes resulted from human error. To prevent such errors in the future, the college employees who sign the FISAP should review the completed FISAP and

supporting schedules more carefully for mathematical accuracy and compliance with federal reporting instructions. In April 1987, the college submitted amended FISAPs to the U.S. Department of Education to correct the above errors, and report the proper amount of maintenance of effort for fiscal years 1984-85 and 1985-86.

RECOMMENDATION #17-3

WE RECOMMEND THE COLLEGE IMPROVE REVIEW PROCEDURES TO PREVENT FUTURE FEDERAL REPORTING ERRORS.

RESPONSE #17-3

Concur. The return will be reviewed for accuracy before signing the return.

17-4. Guaranteed Student Loans

(CFDA #84.032)

Federal regulations (34 CFR Part 682) require schools to notify lenders who issue students Guaranteed Student Loans (GSL) whenever the students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The college notifies GSL lenders of changes in students' enrollment status on a semi-annual Student Confirmation Report (SCR). After college personnel complete the SCR and send it back to a central processing company, the company uses the information to notify applicable lenders. Federal regulations require the college to report the enrollment status change directly to the lender if it does not expect to submit its next SCR within 60 days.

For two of eighteen students tested, the college did not report enrollment status changes directly to the lenders, as required by the above federal regulation. In one instance, three months elapsed between the date enrollment status changed and the date the college reported the change on its next SCR. In the other instance, nearly seven months elapsed. To improve the ability to collect GSLs and ensure compliance with federal regulations, the college's financial aid office should establish a system for reporting enrollment

status changes directly to lenders when it does not expect to submit its next SCR within 60 days.

RECOMMENDATION #17-4

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES FOR REPORTING ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #17-4

Concur. The financial aid office has implemented a system of monitoring withdrawals and other enrollment changes such as withdrawals, graduations and drops in enrollment to less than half time. The enrollment status change is then appropriately reported on the back of the Notice of Loan Guarantee and Disclosure Statement. The statement is sent to the lender the same day in the case of a withdrawal, or monthly in the case of enrollment drops to less than half time. The disclosure statement is then documented in the student file. This procedure is now implemented in addition to the semi-annual Student Status Confirmation Report filed with the Department of Education.

17-5. Data Processing Controls

(This issue could affect all of the college's federal assistance. During the audit period, the college expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Energy, and Department of Education.)

In our prior audit report, we recommended the college establish adequate data processing controls. Although the college's data processing controls have improved, we identified continuing concerns related to computer access, fire protection, and disaster recovery at the college. College personnel stated their data processing activities are small, so they do not believe extensive controls are necessary. Although the college's computer organization is small, the items noted below are controls that could, and should, be in effect for a computer operation regardless of its size.

1. The college does not regularly change passwords used to access critical applications (e.g., payroll, student enrollment, financial aid, and accounts receivable). Also, easily guessed passwords, such as user or system names, are used in some instances. To reduce the potential for unauthorized access to critical system applications,

users should periodically change passwords and use names or numbers that are not easily guessed.

2. The college does not maintain logs of jobs processed to detect unauthorized uses of its computer system. The use and review of job logs will enable college officials to better monitor access to the college's critical applications.

3. The college's computer facility, which contains no smoke alarms, is not adequately protected against fire damage. Because smoke alarms detect fires early, they are one of the least expensive means of reducing fire damage. At a minimum, college personnel should install smoke alarms in the computer center.

4. The college does not have a written contingency plan for the recovery of data processing applications following a disaster. Lack of a written plan could cause unnecessary delay and excessive costs in recovering critical applications. The college should provide for the replacement of records that may be destroyed and the continuity of operations following a major hardware or software failure. The college can accomplish this through either manual systems, or other computer systems, but the plan should be written. College personnel indicated that since the college is being combined with the University of Montana, which has a similar computer, they will work with the university regarding disaster recovery.

RECOMMENDATION #17-5

WE RECOMMEND THE COLLEGE IMPLEMENT ADEQUATE COMPUTER ACCESS, FIRE PROTECTION, AND DISASTER RECOVERY CONTROLS.

RESPONSE #17-5

Concur.

(1) Passwords: On Western's new VAX, passwords are known only to the user and expire automatically every 180 days. We have issued a directive instructing computer users to select a new password at that time.

(2) Job Logs: All administrative computer applications are on-line and not batch processed. This greatly negates the usefulness of a traditional job log. However, we will generate lists of when particular accounts are opened. This will indicate if accounts are opened at unusual times.

(3) Smoke Alarms: The long range building program passed by the 50th Legislature includes a project to install and repair smoke alarms at Western. This project will include the installation of a remote reporting smoke alarm in the computer center.

(4) Contingency Plan: Under the merger with the University of Montana, Western will develop a written disaster recovery plan and develop a written agreement with UM.

MONTANA SCHOOL FOR THE DEAF AND BLIND (86-21)

18-1. Indirect Cost Recoveries

(CFDA #84.010)

The school calculated the indirect cost reimbursements for fiscal year 1983-84 for the Education Consolidation and Improvement Act (ECIA) Chapter I Component II grant by applying the negotiated indirect cost rate to its budgeted expenditures for the grant. The school should have applied the indirect cost rate to the actual expenditures of the grant as required by federal regulations.

Since the school did not properly calculate the indirect costs, it overcharged the federal government by $242 in fiscal year 1984-85.

RECOMMENDATION #18-1

WE RECOMMEND THE SCHOOL USE ACTUAL COSTS WHEN CALCULATING INDIRECT COST REIMBURSEMENTS.

RESPONSE #18-1

The school uses actual costs of the federal Chapter I Program in computing indirect cost reimbursements.

18-2. Duplicate Payments

(This issue could affect all of the school's federal assistance. During the audit period, all federal assistance expended by the school was received through the state's Office of Public Instruction from the following federal programs: CFDA #10.550, 10.553, 10.555, 84.010, and 84.151.)

In four separate instances, the school had paid the same invoices twice. The items were not large dollar amounts (none over $50). However, the respective companies and not the school's accounting personnel identified the overpayment. This indicates controls are not adequate to ensure payment is only made once for each purchase.

School personnel indicated, of the four duplicate payments, one was caused by the vendor billing under two different vendor names and three occurred during a change in the school's accounting personnel, so school officials could not explain what caused these three errors. If the school maintained an adequate control system for expenditures, it should have detected the duplicate payments regardless of the reason it occurred. Procedures used by other agencies to ensure claims are paid only once include: establishing a vendor file, making payments only upon receipt of an original invoice, and marking invoices "paid" when the transfer warrant claims are prepared.

RECOMMENDATION #18-2

WE RECOMMEND THE SCHOOL IMPLEMENT PROCEDURES TO ENSURE CLAIMS ARE PAID ONLY ONCE.

RESPONSE #18-2

The school maintains a paid and unpaid vendor file in order to assure that duplicate payments on an invoice are not made.

MONTANA ARTS COUNCIL (87-22)

19-1. Contracted Employee

(CFDA #45.007)

Section 2-2-201, MCA, prohibits former state employees, within 6 months following the termination of their employment, from contracting or being employed by an employer who contracts with the state or any of its subdivisions involving matters with which they were directly involved during their employment. The council changed the status of a part-time state employee to an employee of the foundation who contracted with the council in August 1986. The individual did not have a six month break-in-service between the time she was a state employee and a contract employee. Council personnel indicated that major duties performed by the individual did not change when the employee's status changed.

Council personnel were unaware of the state law which prohibits contracting with foundation employees who were former employees of the

council. The council paid a total of $7,700 for the contract payments. Of the total, $3,850 was paid with federal funds received from the National Endowment for the Arts, Basic State Grant. According to federal regulations, costs charged to a federal grant must be allowable under state law. Since the council did not comply with state law, we question $3,850 paid with federal funds.

Council personnel indicated the change was made because the employee retired and was receiving a Public Employees' Retirement System allowance. Section 19-3-1106, MCA, states that a retiree's retirement allowance is reduced if the retiree earns in excess of $5,000 or exceeds 60 working days under covered employment in any calendar year. The council made the switch to avoid the employee exceeding 60 working days under covered employment. In addition, the council switched the employee because the state position was a full-time position but the employee was only working part-time. This allowed the council to move a full-time person into this position. As of July 1987, all the council's contract employees were changed to state employees.

RECOMMENDATION #19-1

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. COMPLY WITH STATE LAW AND NOT CONTRACT WITH FORMER EMPLOYEES WITHIN SIX MONTHS OF TERMINATION.

B. OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY OR MAKE COST ADJUSTMENTS OF $3,850 TO THE NATIONAL ENDOWMENT FOR THE ARTS.

RESPONSE #19-1

A. We concur and have complied and will continue to comply. We were aware of the state law which prohibits contracting former state employees, within 6 months following termination of employment. We were not aware that the law also prohibits being employed with an employer who contracts with the state. In this instance, neither the employee's duties nor her pay for said duties changed.

B. We concur and will comply. We have already been in telephone communication with the National Endowment for the Arts about this matter. They will review the recommendation upon their receipt of

the audit and, when they are satisfied that we have complied with the recommendation, the matter will be resolved.

19-2. Overspent Appropriation

(This issue could affect all of the council's federal assistance. During the audit period, all federal assistance expended by the council was received from the National Foundation on the Arts and the Humanities for the following federal programs: CFDA #45.003, 45.007, and 45.015.)

State accounting policy defines when the council should record an expenditure for lump-sum termination pay. The policy requires the council to record lump-sum vacation and sick leave pay as an expenditure in the fiscal year in which the employee terminates.

In fiscal year 1983-84, the council accrued $8,713 for termination pay for an employee who did not terminate until fiscal year 1985-86. We recommended, in the prior audit, the council reverse this accrual transaction for fiscal year 1983-84 because it was not in accordance with state policy. The council did not reverse the accrual at this time; therefore, termination pay expenditures remained recorded in fiscal year 1983-84.

When the employee actually terminated, the council charged the termination pay to fiscal year 1985-86 expenditures. Subsequently, the council reversed the fiscal year 1983-84 accrual against fiscal year 1985-86 expenditures. As a result, no expenditures were charged in fiscal year 1985-86. When the council reversed the accrual, it improperly reduced fiscal year 1985-86 expenditures. This resulted in unauthorized increases in the council's fiscal year 1985-86 appropriation authority. As a result, the council overspent its appropriations by $4,356 in each of its General and Federal Special Revenue Funds in fiscal year 1985-86.

The council did not concur with the prior audit recommendation because they believed reversing the fiscal year 1983-84 accrual and "absorbing the cost out of current appropriations would have a devastating effect on the agency." Council personnel believed the expenditure should be charged against an appropriation received in fiscal year 1983-84 for moving expenses because of relocation of its offices from Missoula to Helena. However, it would not be proper to charge the termination pay to the moving appropriation because it did not comply with the legislative intent of the appropriation.

RECOMMENDATION #19-2

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. RECORD EXPENDITURES IN THE PROPER FISCAL YEAR.

B. MONITOR ITS BUDGET TO AVOID OVERSPENDING APPROPRIATIONS.

RESPONSE #19-2

This recommendation refers to a prior audit recommendation. Our response remains as it was at that time as follows:

We do not concur. The transactions noted were primarily involved with the agency's relocation from Missoula to Helena and were legitimate. Timing was a difficult issue and had to be planned to fit on-going workload. It was also a difficult transition for staff and the agency felt responsible to make the transition as smooth and humane as possible for everyone involved. Not terminating people by fiscal year end of 1984 was one concession the agency believed was reasonable to make. In addition, reversing the accruals after they have been paid and absorbing the cost out of current appropriations (the amounts in question are 15.4% of our current general fund administrative appropriation) would have a devastating effect on the agency.

In addition we requested and received authorization from the Accounting Division to carry this accrual forward at fiscal year end 1984 and 1985. There was no mention by them at that time that this was an inappropriate action.

19-3. Indirect Cost Recovery

(CFDA #45.003, 45.007, 45.015)

The council did not comply with section 17-3-111, MCA, which requires state agencies to recover indirect costs of federal assistance programs to the fullest extent possible. In order to comply with the state law, the council should have negotiated an agreement with the federal government to recover indirect costs incurred in administering federal grants received from the National Endowment for the Arts. We recommended that an indirect cost recovery agreement be negotiated with the federal government during our previous two audits. The council concurred with the recommendation in both audits but did not implement it.

The Department of Administration's Statewide Cost Allocation Plan (SWCAP) for fiscal years 1985-86 and 1986-87 allocated $5,778 and $7,449,

respectively, to the council. If the council had an agreement for indirect cost recovery with the federal government, a negotiated amount, up to the SWCAP amounts noted above, could have been recovered and reimbursed to the state's General Fund. Council personnel stated if they negotiated for indirect costs with the federal government, it would decrease money available for programs. However, the council is misrepresenting the General Fund support for federal programs.

RECOMMENDATION #19-3

WE RECOMMEND THE MONTANA ARTS COUNCIL NEGOTIATE AN AGREEMENT WITH THE FEDERAL GOVERNMENT TO RECOVER INDIRECT COSTS INCURRED IN ADMINISTERING FEDERAL GRANTS AS REQUIRED BY STATE LAW.

RESPONSE #19-3

We concur and are in the process of negotiating a lump sum indirect cost amount to cover the federal proportionate share of the SWCAP, which is about 32% of the total amount charged. The most recent SWCAP has been received by the agency within the last thirty days. This action will be finalized within three months.

19-4. Documentation

(CFDA #45.007, 45.003)

The council did not comply with state policy requiring SBAS documents in the agency's file be properly and adequately supported. Federal regulations also require documents be adequately supported. During our testing, we determined 5 out of 11 journal vouchers and 7 out of 8 accrual documents did not have supporting documentation. Included in these were documents funded by the Basic State Grant and the Artists In the Schools Program. In order to adequately explain accounting transactions, the council's accountant had to recreate supporting documentation. This took a substantial amount of time. Council personnel indicated the support was not attached due to human error.

If the accountant should terminate employment at the council, new personnel would not be able to adequately explain accounting transactions because documents do not have support attached.

This was a prior audit recommendation the council concurred with but did not implement.

RECOMMENDATION #19-4

WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH STATE POLICY BY ADEQUATELY SUPPORTING ALL SBAS DOCUMENTS.

RESPONSE #19-4

We concur and are complying. We reviewed the SBAS documents involved with one of the staff auditors and have a clear understanding of what is required for "adequate support".

19-5. Cash Management

(CFDA #45.007)

In fiscal year 1985-86 and 1986-87, the council used federal funds from the Basic State Grant to temporarily fund a state program. During fiscal year 1985-86, the council used $899 for the entire year and in fiscal year 1986-87, the council used $6,053 for approximately ten months. The council subsequently reimbursed the federal funds with state monies.

Office of Management and Budget (OMB) "Circular A-102, Attachment G" prescribes standards for financial management systems of federal grant supported activities. These standards require the grantee's financial management system to provide for procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the grantee.

The council personnel said the appropriation authority was not available at the time they needed it, so they used federal monies until the state appropriation became available. The council's failure to comply with federal standards could jeopardize the continued existence of the federal program in Montana.

RECOMMENDATION #19-5

WE RECOMMEND THE MONTANA ARTS COUNCIL ESTABLISH PROCEDURES TO RESTRICT THE USE OF FEDERAL CASH TO THE APPLICABLE FEDERAL PROGRAM.

RESPONSE #19-5

We concur and have complied and will comply. We had no idea this was a problem. This recommendation involves the Percent for Art projects, during the start-up biennium for these projects. The Office of Budget and Program Planning was unsure how to handle the appropriation of these funds. It took months to get this straightened out and in the meantime the projects had begun and we charged the expenditures to federal funds. In the future we will utilize other funds for these kinds of items should they arise or request a general fund loan.

19-6. Political Activity

(CFDA #45.007)

The council subgrants with approximately 148 organizations and individuals to carry out federal projects of the Basic State Grant. Federal regulations prohibit the use of federal monies for partisan political activity. The council does not ensure, or include in its contracts or applications with subgrantees, a requirement that federal funds not be used for this activity. Council personnel indicated this was an oversight. Since our office is not responsible for auditing most subgrantee's records, we do not know if any of these funds were spent for political activity. The council could include language that prohibits use of federal funds for political activity in its contract with subgrantees.

RECOMMENDATION #19-6

WE RECOMMEND THE MONTANA ARTS COUNCIL DEVELOP A SYSTEM TO ENSURE SUBGRANTEES DO NOT SPEND FEDERAL FUNDS FOR POLITICAL ACTIVITY.

RESPONSE #19-6

We concur and will comply. We have revised our contract with sub-grantees to incorporate this restriction. We will include this information in our final sub-grantee self-evaluation as well.

MONTANA STATE LIBRARY (87-24)

20-1. Contracted Services

(This issue could affect all of the library's federal assistance. During the audit period, the library expended federal assistance received from the following federal agencies: Department of Education, Department of the Interior, and Department of Energy.)

As part of our testing at the Montana State Library, we examined nine contracts. The reason for this examination was due to the interest generated from a performance audit report on the state's contracted services (87P-35) presented to the Legislative Audit Committee in December 1987.

One aspect of our examination was to determine whether the library's contracts met the minimum requirements as outlined by state policy established by the Governor's office. We noted several instances where the minimum requirements for contracts were not met. Some of these items included:

- Not all contracts listed the venue as being the First Judicial District in Lewis and Clark County, Montana. In the event of litigation, if venue were other than Lewis and Clark County, a lawsuit could be tried in another state or distant location increasing the cost of litigation to the state of Montana.

- None of the contracts had a signature indicating the contracts had been reviewed and approved for legal content. An attorney's review of contracts should ensure the interests of the parties are protected and the state's contracting requirements are addressed in the agreement.

- The library intended to establish a contract with an independent contractor; however, the contract did not indicate that the individual was an independent contractor. If the contract does not state that the person is an independent contractor, the individual may be perceived as an employee of the state and could then be entitled to benefits accruing to state employees.

- The same contract noted above did not indicate that the contracted party either had workers' compensation coverage, or proof of exemption from coverage. If the library does not require either proof of coverage or exemption, and the contractor is injured during the performance of the contract, the state could be liable for payment of benefits.

- The ownership of materials was not specified in one contract. The contract should identify which party owns any working papers and/or end product resulting from the contract.

- Some contracts did not specify the name and title of the liaison to whom the contracted party shall report. If the liaison is included in contracts, any questions or concerns encountered in the performance of the contract can quickly be discussed.

- The contracts did not always include a section that stated no assignment, transfer or subcontracting of the contracts could be made unless all parties agreed in writing. Unless the contract specifies that assignment must be agreed upon by the parties in writing, the performance of a contract could be transferred to an unqualified party.

- One of the library's contracts did not mention that modifications should be made in writing. The contracts should indicate that the contract cannot be modified, enlarged or altered except upon written agreement signed by all parties. This puts both parties on notice that modification must be in writing.

Based upon discussions with a library official, the library enters into only 20 to 30 contracts each year. Several years ago a lawyer helped the library formulate contracts, however these contracts have constantly changed and evolved to meet present needs. The library uses the legal services of the Attorney General's Office. Library officials believe it may not be cost beneficial to have legal counsel review each contract. Many contracts are entered into with other state agencies, are for small dollar amounts, or involve the subgranting of federal funds for library service and construction grants. Library personnel indicated that library service and construction contracts are governed by specific mandates from the federal government.

Because library service and construction contracts frequently involved significant dollar amounts and/or are technical in nature, approval for legal content is important. Also, a legal review could help the library ensure compliance with the minimum contract requirements discussed above. One way the library can reduce the cost of legal reviews would be to use a form contract which has been approved for legal content. Other contracts with state agencies or outside parties should be evaluated to determine if the nature of the contract requires legal review.

RECOMMENDATION #20-1

WE RECOMMEND THE MONTANA STATE LIBRARY ENSURE ALL CONTRACTS MEET THE MINIMUM REQUIREMENTS AS REQUIRED IN STATE POLICY.

RESPONSE #20-1

Concur. The library is currently obtaining legal assistance to formulate two form contracts. One contract will be for agreements involving amounts of $15,000 or less. The other contract will be for Title II Construction agreements. Title II contracts are also reviewed by the A&E department. These form contracts will help ensure the library's compliance with the minimum requirements of state policy.

The library will seek legal review of all other contracts over $15,000.

20-2. Federal Compliance

(CFDA #84.034)

During fiscal year 1986-87, the library requested a Letter of Credit cash drawdown of funds from the federal government for the Library Service Construction Act Title I grant. Rather than recognizing revenue for the amount of the cash drawdown, library personnel improperly recorded an expenditure reduction. Federal regulations require that the receipt and disbursement of federal funds be accurately and completely disclosed on the state's accounting records. Library officials stated that an accounting error caused the drawdown to be improperly recorded. By recording the cash drawdown in this manner, both revenue and expenditures are understated by $6,069 on the library's accounting records. Although this transaction caused an error on the state's accounting records, we found the library properly reported the receipt and disbursement of these funds on its quarterly Federal Cash Transaction Reports.

RECOMMENDATION #20-2

WE RECOMMEND THE MONTANA STATE LIBRARY ACCURATELY RECORD THE RECEIPT AND DISBURSEMENT OF FEDERAL FUNDS ON ITS ACCOUNTING RECORDS TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS.

RESPONSE #20-2

Concur. This was a one-time clerical error and has been duly noted and procedures implemented to prevent a recurrence.

DEPARTMENT OF FISH, WILDLIFE AND PARKS (FWP) (86-2)

21-1. Wildlife Restoration Grant

(CFDA #15.611)

The wildlife restoration grant money received by FWP was determined to be a major federal assistance program in fiscal year 1985-86. A major compliance requirement of this program outlined in federal regulations prohibits the state from diverting hunting and fishing license fees to purposes other than the administration of the state fish and game agency. We tested to determine if there was diversion of fishing and hunting license moneys. Nothing came to our attention that indicated the department was diverting the license moneys.

21-2. Monitoring Subrecipients

(CFDA #15.916)

The Federal OMB Circular A-128 requires state governments which receive federal financial assistance and provide $25,000 or more of it in a fiscal year to a single subrecipient, to have a control system for monitoring subrecipients and obtaining and acting on subrecipient audit reports. This control system is necessary to ensure the subrecipient spent federal assistance funds in accordance with federal laws and regulations.

FWP receives Land and Water Conservation Funds (LWCF) from the federal government. Over half of these funds are subgranted to local governments to be used on various projects. FWP has a system to determine if the local government's expenditures are allowable per the grant agreement but does not have a system to obtain and act on subrecipient audit reports.

We reviewed the most current audit reports of eight subrecipients who received $25,000 or more of LWCF moneys during our audit period. We noted the following noncompliance issues in two of the audit reports:

1. A city did not solicit formal competitive bids for materials, supplies, and services with an acquisition cost exceeding $10,000. The LWCF project agreements and state law require that formal competitive bids for materials, supplies, equipment, or construction costs in excess of $10,000 be obtained. The FWP grant officer believed the city had fulfilled the requirements by posting notice in public places.

The auditor of the city disagreed with the grant officer's interpretation of the requirements.

2. A county did not require successful bidders to provide performance bonds or include a provision in the bid specifications stating the prevailing wage rate to be paid for each job classification. Also, the same county did not inform all bidders that federal funds were being used to assist in the construction. The above are requirements of the state and/or LWCF general provisions. FWP agency personnel were not aware of these violations of compliance requirements.

FWP could potentially lose LWCF moneys if they do not establish a system to obtain the required subrecipient audit reports and act on any noncompliance issues. Review of audit reports could disclose internal control weaknesses, questioned costs, or other problems at the subrecipient level. Circular A-128 requires state governments to take appropriate corrective action within six months after receipt of the audit report in instances of noncompliance.

The Department of Commerce is responsible for the audit of local government entities. In May 1986, subsequent to our notification to the department of this issue, FWP contacted the Department of Commerce requesting audit reports of all subrecipients of LWCF money. The Department of Commerce indicated to FWP that the subrecipients are required to provide the grantor agency, FWP, all copies of their audit reports. FWP revised its grant agreement with its subrecipients requiring them to submit audit reports to FWP. As of January 1987, FWP had not received any audit reports.

RECOMMENDATION #21-2

WE RECOMMEND THE DEPARTMENT ESTABLISH A SYSTEM TO OBTAIN AND ACT ON SUBRECIPIENT AUDIT REPORTS AS REQUIRED BY OFFICE MANAGEMENT AND BUDGET CIRCULAR A-128.

RESPONSE #21-2

The Department of Fish, Wildlife and Parks concurs with this recommendation. The Parks Division has designed a system with the Department of Commerce for obtaining and acting on subrecipient audit reports as required by the Office of Management and Budget Circular A-128.

DEPARTMENT OF HEALTH (86-11 and 88-11)

22-1. Payroll Cost Reimbursement

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Health and Human Services, and Environmental Protection Agency.)

Certain payroll costs of the department are included twice in the calculation of the overhead cost reimbursement rate charged to the federal government. This double charge for reimbursement is contrary to federal regulations which require that costs for overhead reimbursement be charged just once.

The payroll cost of $9,858 for the administrative costs to process payroll is included in the department's calculation of overhead costs. The same amount is used by the Department of Administration in calculating the Statewide Cost Allocation Plan (SWCAP) amount. Both the department's overhead costs and the SWCAP amounts are combined and submitted to the federal government for use in determining the department's reimbursable overhead rate. Therefore, the payroll processing cost is included twice in the calculation.

Department of Administration (DofA) and U.S. Department of Health and Human Services officials indicated the state has resolved this issue with the federal government. The state will reduce its SWCAP by $117,506 for three fiscal years to reimburse the federal government for past overcharges. A DofA official indicated this noncompliance with federal regulations had occurred at several state agencies so the department decided to resolve the issue by adjusting SWCAP. Since both state and federal officials indicate the issue is resolved, this report section is for disclosure purposes only and we do not make a recommendation.

RESPONSE #22-1

The Department of Health and Environmental Sciences has referred this to the Department of Administration, which has reached an agreement with federal officials on the method of resolution.

22-2. Expenditure Accruals

(CFDA #10.558)

The department did not accrue June expenditures for child nutrition food services at fiscal year-end 1984-85 and 1985-86 in accordance with state accounting policy. State accounting policy requires that expenditures be recorded for valid obligations of the state which exist on June 30th of each year. Day care centers and sponsors submit monthly billings to the department for meals served by the centers and sponsors. A department official said the department's Child Nutrition Grant pays for these costs but the department did not accrue the June expenditure because it did not receive the June bill until July. Consequently the department recorded prior year expenditure adjustments in each subsequent year.

State accounting policy allows the department to estimate valid obligations when exact amounts are unknown. The department could have estimated the June expenditures based on expenditures from prior months. As a result, expenditures and accrued expenditures in the Special Revenue Fund, are understated in fiscal year 1984-85 and fiscal year 1985-86 by $48,967 and $99,547, respectively.

RECOMMENDATION #22-2

WE RECOMMEND THE DEPARTMENT ACCRUE VALID OBLIGATIONS AT FISCAL YEAR-END.

RESPONSE #22-2

The Department of Health and Environmental Sciences has implemented a system to estimate the amount to accrue on any obligation that does not have a billing to the department by fiscal year end.

22-3. Federal Financial Status Report of WIC

(CFDA #10.557)

As part of our review of the Women, Infants and Children (WIC) program federal financial status report for federal fiscal year 1985-86, we noted the amount reported as net outlays for the reporting period was overstated by $17,069 in the Other Administrative Costs category. We determined that $16,195 of the $17,069 related to encumbrances that should have been reported as unliquidated obligations, rather than as net outlays, on a separate line of the federal report. Department personnel were unable to adequately explain the remaining $874 difference between the $17,069 in encumbrances included in net outlays for the current period and the $16,195 of encumbrances reported on the department's accounting records. Federal regulations require that reports submitted to the federal government be accurate (OMB Circular 102 attachment H). A department official said the department will begin a secondary review of the federal financial status reports to reduce the risk of errors.

RECOMMENDATION #22-3

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE AMOUNTS REPORTED ON THE FEDERAL FINANCIAL STATUS REPORTS ARE ACCURATE.

RESPONSE #22-3

The Department of Health and Environmental Sciences has implemented procedures to assure that all final grant reports are checked by more than one person to assure that the report agrees with the department's accounting records.

DEPARTMENT OF HIGHWAYS (87-17)

23-1. Cancellation of Access Privileges

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Commerce, Department of Defense, Department of the Interior, and Department of Transportation.)

The department's computer operations section is responsible for the authorization and cancellation of computer system access privileges for all department employees using the state's security software (ACF2). However, procedures existing to ensure access privileges are cancelled upon employee termination are not being properly applied. We noted four employees with access privileges whose employment terminated prior to the end of our field work. Our testing showed access was made using two of the terminated employees' user identification numbers (user IDs) after they terminated. The other two terminated employees' user IDs had not been cancelled three and five months after the employees' terminations.

Department personnel indicated the access between the termination and cancellation of access privileges was probably access to move the files from the terminated employee's user ID to the employee that will now have access to these files. This movement of files can be accomplished by the security officer without using the terminated employee's access code. Department personnel also indicated that access had not been cancelled for the other two employees because the employees were former technical services bureau employees and the bureau left the access open to perform housekeeping functions on the files maintained by those employees. The access for those employees can be cancelled and technical services bureau would still have access through the security officer.

In our previous audit we recommended the department ensure access privileges are cancelled for terminated employees. The department developed procedures to accomplish this, however, the procedures were not followed.

Allowing terminated employees to retain access privileges to the department's computer system provides the opportunity for the destruction or alteration of system information by former employees. Access privileges should be cancelled immediately upon termination.

RECOMMENDATION #23-1

WE RECOMMEND THE DEPARTMENT ENSURE ACCESS PRIVILEGES ARE CANCELLED IN A TIMELY MANNER FOR TERMINATED EMPLOYEES.

RESPONSE #23-1

The department will follow established procedures to promptly cancel access privileges.

23-2. Documentation of Controls

(CFDA #20.205)

Major highway construction projects are supervised by a field project manager. The field project manager is responsible for preparing a project estimate, which is used to generate payments to contractors for the work completed. We identified the field project manager's review and approval of the completed project estimate as one of the key controls in the contractor claims section of the expenditure cycle. Our testing disclosed that the field project manager no longer signs the project estimate as evidence of the control. As a result we were not able to verify this control exists. Since the field project managers often telephone the project estimate information to the district office, where the information is transmitted via computer to Helena headquarters, the possibility of errors and/or overpayments that would not be detected in a timely manner is increased. Department personnel indicated the review and approval was dropped due to the difficulty in obtaining a manual signature when the information began to be transmitted electronically. The review and approval provides an important management control. Federal Highway Administration program review personnel also identified this as a control weakness during a 1987 review of two of the department's financial districts.

We noted another review and approval control that could not be verified due to the lack of a signature indicating the review had been done. The department has an equipment management system that is used to develop management information and bill projects for equipment use. The input for this system is an equipment usage report, prepared by the operator of the equipment, detailing what projects should be charged for the equipment's use. These equipment usage reports are supposed to be reviewed by the operator's supervisor prior to processing. However, the department could not provide us with evidence the review had been performed. As a result, the potential for equipment usage to be improperly charged and not detected in a timely manner is increased. Department personnel indicated the lack of approval verifying the review was an oversight.

RECOMMENDATION #23-2

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE:

A. FIELD PROJECT MANAGERS REVIEW AND APPROVE PROJECT ESTIMATES.

B. EQUIPMENT OPERATORS' SUPERVISORS REVIEW AND APPROVE EQUIPMENT USAGE REPORTS.

RESPONSE #23-2

A. The department will implement a new personal computer based progress estimate system statewide by the end of FY 89. At that time we will do an extensive rewrite of the progress estimate system to include approval codes. Until that time we implemented an alternate procedure in March 1988 which requires district office personnel to review the project managers' hardcopy project estimates for approval signatures. This procedure has been approved by the Federal Highway Administration.

B. The Equipment Bureau issued a directive in February 1988 to require supervisors to sign all equipment rental forms.

DEPARTMENT OF STATE LANDS (87-19)

24-1. Unrecorded General Fund Revenue

(CFDA #10.664)

We noted federal reimbursement for fire suppression costs incurred by the Forestry Division are not recorded in the proper fiscal year. State firefighters assisted the federal government in fire suppression during the summer of 1986 (fiscal year 1986-87). The state incurred costs that were subject to federal reimbursement. To obtain reimbursement, it was necessary for the Forestry Division to prepare and send a billing statement to the U.S. Forest Service. During fiscal year 1986-87, the division did not bill the U.S. Forest Service for the fire suppression costs incurred during the summer of 1986 and, did not accrue revenue at fiscal year-end 1986-87. A department official indicated the forestry division had sufficient information to prepare the billing statement in October or November 1986. The actual billing statement was prepared in November 1987. By not billing the U.S. Forest Service in a timely manner and not accruing the reimbursement amount to be received, General Fund revenue

is understated in fiscal year 1986-87 by $49,824. The department lost an estimated $3,160 in interest earnings because the $49,824 was not requested and received in a timely manner. The department's untimely recording of federal reimbursements for fire suppression costs also understated revenue in fiscal years 1983-84 and 1984-85 as noted in our previous audit report.

According to state accounting policy, revenue should be recognized in the fiscal year in which it becomes measurable and available to finance expenditures of the accounting period. Recording the accrual at fiscal year-end would have ensured the reimbursement revenues were recorded in the same fiscal year that the related expenditures were recorded.

A department official indicated that due to an oversight, the department did not prepare the federal billing statement or accrue the revenue.

RECOMMENDATION #24-1

WE RECOMMEND THE DEPARTMENT:

A. PREPARE FEDERAL BILLING STATEMENTS IN A TIMELY MANNER.

B. RECOGNIZE REVENUE IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #24-1

Concur

Implementation/Corrective Action: The agency has implemented measures to correct the problem.

24-2. Federal Reports

(CFDA #15.252)

The department did not accurately prepare two federal reports for its Abandoned Mine Lands Reclamation (AMLR) Program. Federal regulations require that reports submitted to the federal government be accurate. We noted the June 1986 and the June 1987 Minority Business Enterprise Utilization Reports required by the AMLR program understated the total dollar value of each grant by $60,000 and $400,000, respectively. Department personnel indicated that due to an oversight the person preparing the reports did not use the amended grant agreements as a source for the information on the Minority

Business Enterprise Utilization Report. If the department had an established review procedure to ensure federal reports are accurate, the errors could have been detected and corrected before submission of the reports.

RECOMMENDATION #24-2

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE FEDERAL REPORTS ARE ACCURATE.

RESPONSE #24-2

Concur

Implementation/Corrective Action: The agency will endeavor to make sure all federal reports are accurate.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION (86-13)

25-1. Water Projects

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Energy and Department of Defense.)

General

The Legislature created the State Water Conservation Board in 1933. The board was charged with the coordination, construction, operation, and maintenance of a statewide system of water projects. The board designed these projects to conserve, develop, store, distribute, and utilize the water of the state. The projects provide irrigation, flood control, fire protection, fish and wildlife habitat, recreation, and other domestic and industrial uses.

Presently the department administers 33 active water projects. Of the 33 projects, 17 were financed primarily through the sale of revenue bonds issued by the state. The state is not obligated to pay the bonds or interest except from the Special Revenue Fund where proceeds from project water sales are deposited. The remaining 16 projects were financed with both state and federal funds. The department has a three-party contract with the department, the local water user associations, and the "water purchaser" users to recover the state investment in these projects through user charges.

The following section discusses problems we found in water projects administration and compliance.

Accounting and Compliance

Section 85-1-215, MCA, relating to water use, states "The department shall keep full and complete accounts concerning all matters and things relating to the works and annually shall prepare balance sheets and income and profit and loss statements showing the financial condition of each project and file copies thereof with the secretary of state...". Currently, the department performs the water project accounting functions discussed below.

The Engineering Bureau maintains billing records of the water projects for the water user associations. These records reflect the receivable balances owed by each water association to the department and the receivable balance owed by individual water users to the associations. The bureaú bills approximately 2,800 individuals for water use. These water users pay their association based on the billing. The association retains the operation and maintenance portion of the payment and forwards the water contract payment to the bureau. The bureau forwards the association balance owed to the department to the Centralized Services Division for input to the Statewide Budgeting and Accounting System.

These payments are posted to the automated accounts receivable system in the Engineering Bureau and the account receivable balance is reduced. We noted the automated system does not keep the transaction history of payments received. As a result, the accountant in the Engineering Bureau keeps detailed duplicate manual records of the accounts receivable billings, payments, and water contract principal. In addition, the department does not prepare balance sheets and income and profit and loss statements for each project as required by state law. A department official indicated the current system is not capable of performing this function but the department is developing software that will help in obtaining the necessary information and eliminate the duplicate records. The official indicated some of the information would have to be provided to the department by the individual association. The department should implement a system which would provide the necessary statements in accordance with state law and eliminate duplicate records. The

need to eliminate duplicate manual records has been addressed in the last two audits of the department.

As noted above, the department contracts with various water associations to collect money from the individual water users and provide the maintenance of the water project. We discussed with agency personnel the need for the department to keep the records of each individual water user. Based on discussions, we noted that, although the law does not specifically say full and complete accounts need to be kept for "user or association," the department decided to keep track of outstanding receivable balances by individual user as the user ultimately owes the money to the department. The department's duties include billing the various water users and recording payments received. The department contracts with the association to collect the money from the individual users and to perform other duties. According to agency personnel, the law is too broad and does not specify what accounts need to be kept by the department. Department personnel should determine the intent of this law, consider its appropriateness to the department's current circumstances, and, if necessary, request legislative clarification of the law.

<u>RECOMMENDATION #25-1</u>

WE RECOMMEND THE DEPARTMENT:

A. IMPLEMENT A SYSTEM WHICH WOULD PROVIDE THE BALANCE SHEETS AND INCOME AND PROFIT AND LOSS STATEMENTS FOR EACH WATER PROJECT IN ACCORDANCE WITH STATE LAW.

B. ENSURE THE SYSTEM IMPLEMENTED ELIMINATES DUPLICATE RECORD KEEPING.

C. SEEK LEGISLATION TO CLARIFY OR REPEAL SECTION 85-1-215, MCA.

<u>RESPONSE #25-1</u>

Implementation of this recommendation has been delayed due to a severe staff shortage in our Data Processing Bureau, which has hampered the development of the automated loan and grant system. Progress has been made and portions of the system are operational, but it will be a while before it is completed. That system will produce the required financial statements and eliminate the need for duplicate record keeping. The department is preparing legislation to clarify 85-1-215.

25-2. State Compliance

(CFDA #12.999)

The conservation division receives a flat reimbursement amount of $200 per month from the Corp of Engineers for rent of building space, use of typewriters, etc. Based on discussion with agency personnel, the agreement with the Corp of Engineers does not indicate that excess funds should be used for a specific purpose. Therefore, these non-General Fund moneys should have been used prior to using the department's General Fund appropriation.

Section 17-2-108, MCA, indicates the department shall apply expenditures against non-General Fund money wherever possible before using the General Fund appropriations. The department should revert the remaining balance, which is over $1,100, to the General Fund.

RECOMMENDATION #25-2

WE RECOMMEND THE DEPARTMENT SPEND NON-GENERAL FUNDS FIRST IN ACCORDANCE WITH STATE LAW.

RESPONSE #25-2

The department will spend non-general funds first in accordance with state law, as cash flows permit. The remaining balances at year-end were reverted to the General Fund at year-end, as recommended, and will be in the future.

DEPARTMENT OF REVENUE (86-5)

26-1. Federal Compliance

(CFDA #13.775, 13.780, 13.783, 15.999)

The department does not identify property purchased with federal Child Support, Medicaid Fraud, Welfare Fraud, and Royalty Audit Contract funds in accordance with federal regulations. Attachment N of Office of Management and Budget "Circular A-102" requires property purchased with federal funds be identified as such on the property records. It is important for the department to identify equipment purchased with federal funds because when it sells, or no longer needs, equipment with an acquisition cost of $1,000 or more, the

department must reimburse the federal government for a portion of the proceeds it receives.

Department personnel indicated the property is not identified on the property records as being purchased with federal funds because the equipment is purchased with state and federal funds and the type of equipment purchased depreciates significantly. If the department sold these items, the market or salvage value would not exceed the amount the state is allowed to retain for administrative costs and, therefore, no reimbursement would be due the federal government. However, to ensure compliance with federal regulations, the department should identify items purchased with federal funds in its accounting records.

RECOMMENDATION #26-1

WE RECOMMEND THE DEPARTMENT COMPLY WITH FEDERAL REQUIREMENTS BY IDENTIFYING FEDERAL EQUIPMENT IN ITS PROPERTY RECORDS.

RESPONSE #26-1

When new equipment is purchased and is identified as being purchased with federal funds, the equipment is being designated as federal equipment in PAMS. As time and personnel become available, past equipment purchases are reviewed in PAMS to assure records reflect the proper funding.

DEPARTMENT OF AGRICULTURE (87-23)

27-1. Support Documentation

(CFDA #10.156, 66.700)

State accounting policy requires every Statewide Budgeting and Accounting System (SBAS) document be properly and adequately supported, and a complete explanation appear on the document. Without sufficient support documentation, incorrect transactions could be recorded on SBAS. In the case of unsupported revenue abatements, revenue could be understated.

During our testing of five revenue abatement transactions for fiscal year 1985-86, we found four of the transactions could not be justified based on the attached supporting documentation. The transactions abated federal revenue

for the Marketing Development grant and the Enforcement grant. All four entries were recorded in the Federal Special Revenue Fund. The documents and support were prepared by an individual no longer employed at the department, and current personnel could not provide additional support for the transactions.

We also found one document, recording an adjustment to interest earnings on investments, that had no support attached to it. Department personnel stated the document had been prepared during the busy fiscal year-end period and documenting support for the transaction was overlooked.

The department's process for review and approval of SBAS documents should include a review for the existence of adequate documentation to support the transactions.

RECOMMENDATION #27-1

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE ALL SBAS DOCUMENTS ARE ADEQUATELY SUPPORTED.

RESPONSE #27-1

The department has implemented procedures and continues to make a concerted effort to ensure all SBAS documents are adequately supported.

27-2. Classification

(CFDA #10.156)

The Wheat Research and Marketing Unit pays for membership to several national wheat and barley associations. The purposes of these associations are to improve wheat and barley quality, increase the efficiency of production, and to carry out research and marketing. To meet those ends, the associations sponsor specific projects and member organizations contribute money specifically for those projects. The Wheat Research and Marketing program's activities, including membership in national associations, are funded by a refundable producer assessment on all wheat and barley grown. Because the assessment is refundable, participation in the Wheat Research and Marketing Program is voluntary.

The department classifies its membership payments and its payments for projects as "Grants to Professional Societies." This classification is acceptable for project expenditures. However, under state policy, payments for membership should be classified as an operating expenditure rather than a grant expenditure.

Because of the misclassification, grant expenditures are overstated and operating expenditures are understated by $168,905 and $256,204 for fiscal years 1985-86 and 1986-87, respectively. The Centralized Services administrator agreed that to properly reflect its financial activity, the department should classify membership payments as operating expenditures.

The department's Centralized Services program is partially funded by 2.5 percent of all department grant expenditures. Reclassifying membership payments will result in a loss of funding to Centralized Services from that source, unless the funding structure is changed.

RECOMMENDATION #27-2

WE RECOMMEND THE DEPARTMENT CLASSIFY MEMBERSHIP PAYMENTS AS OPERATING EXPENDITURES.

RESPONSE #27-2

The department concurs and has taken corrective action to classify membership payments are operating expenditures in the current and future fiscal year expenditure and budget process.

DEPARTMENT OF INSTITUTIONS CENTRAL OFFICE (ICO) (86-12)

28-1. Support Documentation

(CFDA #13.807, 13.992)

The department prepared numerous documents, without support documentation attached, to make entries to SBAS. Support documentation is necessary to substantiate the propriety of the entries. Examples of transactions without support documentation attached include the following:

1. In determining the reasonableness of Alcohol and Drug Program revenue and expenditure amounts recorded on SBAS, we noted several problems. The documents recording entries on SBAS, the federal grant reports, transfers between block grants, and the

contract amounts for the earmarked alcohol funds to be distributed to the counties were without support documentation attached.

2. The 1985-86 accrual of reimbursement revenue for each institution was based on unpaid and unbilled claims. The reimbursement clerks totaled the unpaid claims (kept in a file) for June 30, 1986. However, once these claims were paid they were then filed elsewhere leaving the June 30, 1986 accrual unsupported.

3. The reimbursement clerks manually determined the amount of money collected in fiscal year 1985-86 related to fiscal year 1984-85 services. The support used to determine the amount of actual collections for Medicare, Medicaid, and insurance was not kept.

4. The department sometimes makes entries to the individual institutions' accounting records on their behalf. Based on audit work done at the various institutions, we determined the entries made by the department to each institution's accounting records (SBAS) often did not have support documentation attached.

The department was able to recreate information for audit purposes but this does not remove the need to attach adequate support to the document. Adequate support provides an audit trail and support for the reasonableness of the transaction. As time passes, it becomes increasingly difficult for the department to recreate information supporting the reasonableness of its financial activity. Management Memo 2-79-8 states "every SBAS document in the agency's file shall be properly and adequately supported." Department officials have indicated they plan to take the necessary steps to ensure SBAS documents are adequately supported in the future.

RECOMMENDATION #28-1

WE RECOMMEND THE DEPARTMENT ATTACH SUPPORT DOCUMENTATION TO ALL SBAS DOCUMENTS.

RESPONSE #28-1

Concur. In the future, no SBAS document will be processed until all supporting documentation has been verified and attached. Internal follow-up reviews have verified that all SBAS documents now have supporting documentation verified and attached.

28-2. Accounting Procedures

(CFDA #13.992)

Two analysts monitor the Alcohol and Drug Abuse and Mental Health Services Block Grant at the department. The analysts each have their own recordkeeping system, and prepare their own documents and support documentation. The analyst who was responsible for the Alcohol and Drug Portion of the Block Grant activity during the two fiscal years under audit was no longer employed at the department during our audit. As noted in the previous report section, department personnel were unable to find the original support for that analyst's SBAS entries and were not sure of the analyst's procedures. Recreating support for these transactions required excess hours and resources. The accounting procedures should be documented and transactions supported to ensure an adequate audit trail. Also, analysts' procedures and duties should be clearly identified in the event they must be performed by someone else.

RECOMMENDATION #28-2

WE RECOMMEND THE DEPARTMENT ENSURE ANALYSTS' PROCEDURES AND DUTIES ARE CLEARLY IDENTIFIED TO PREVENT LOSS OF INFORMATION.

RESPONSE #28-2

Concur. One analyst now monitors the Alcohol and Drug Abuse and Mental Health Services Block Grant at the Department. That analyst's duties and procedures have been clearly defined and there has been no further loss of information.

28-3. Accounting Records - Federal Revenue

(CFDA #16.999)

The department receives federal money for housing federal prisoners at the men's and women's life skill centers in Missoula and Billings. This federal boarder money was recorded in the General Fund using a revenue code which rolled into the reimbursement revenue class in fiscal year 1984-85. In fiscal year 1985-86, the revenue code used rolled into the charges for services

revenue class. State policy requires that revenue received directly from the federal government that would be considered a charge for services be recorded in the federal revenue class series. As a result, reimbursement and charges for services revenue was overstated in the General Fund in fiscal year 1984-85 and 1985-86 by $17,388 and $45,120, respectively. Federal revenue was understated by the same amounts. A department official indicated that when Department of Administration, Accounting Division, reclassified state revenue sources, the department changed the reimbursement revenue classification to charges for services. The official said the department did not realize the need to classify the revenue discussed above as federal revenue.

RECOMMENDATION #28-3

WE RECOMMEND THE DEPARTMENT RECORD THE FEDERAL BOARDER REVENUE AS FEDERAL REVENUE.

RESPONSE #28-3

Concur. Federal Boarder Revenue is now being classified as Federal Revenue using a General Fund Revenue estimate and class code 3401.

EASTMONT HUMAN SERVICES CENTER (86-25)

29-1. Accounting Errors

(CFDA #84.010)

The center records its accounting transactions on the Statewide Budgeting and Accounting System (SBAS). At fiscal year-end, the center receives a mid-month SBAS report from the Department of Administration, Accounting Division. The report is used by agencies to help ensure the accounting records properly reflect their activity for the fiscal year. The following three report sections discuss accounting errors which could have been detected and corrected had center management established procedures to review the report and investigate unusual balances.

Grant Balances

The center received no federal funds during fiscal year 1985-86. However, the center reported $1,360 of cash and $205 of accounts receivable in

the Federal Special Revenue Fund at the end of the audit period. The amounts represent balances remaining in the Special Revenue Fund from years prior to fiscal year 1984-85. Center personnel believe the balances relate to Federal Education Consolidation and Improvement Act (ECIA) Chapter 1 moneys received in fiscal year 1983-84, but they could not provide us with adequate documentation to demonstrate whether the money belongs to the state or the federal government.

Center personnel believe the moneys belong to the state. State policy and federal regulations require that the center maintain accountability for all federal moneys. Since the center personnel could not provide adequate documentation to indicate the proper disposition of the balance in the Federal Special Revenue Fund, we could not determine whether the balance should be refunded to the federal government or transferred to the state General Fund.

Fund Balances

The center improperly classified the balance in its donations account as property held in trust during fiscal year 1985-86. Because of this error, the account reported a negative fund balance at year-end of $2,226. Private donations are given to the school to provide benefits to residents. State policy requires that the balance for these donations be classified as fund balance rather than property held in trust. This recording error caused fund balance to be understated in the Special Revenue Fund by $7,028 in fiscal year 1985-86.

Resident Accounts

The resident account contains money held in trust for the individual residents. The center improperly reported $76,017 in both the cash and property held in trust accounts at fiscal year-end 1984-85. At that time, the center should have reported $39,914 in each of these accounts. State policy requires the center to accurately report the financial activity and account balances on its accounting records.

The center accounts for the resident account activity on manual records during the year. At fiscal year-end, a memo entry is made on SBAS to reflect the center's manual records. The center should have eliminated the July 1,

1984, cash and property held in trust balances in the resident accounts when it recorded the new memo entry at fiscal year-end 1984-85. As a result, the center overstated cash and property held in trust for the Agency Fund by $36,103 at June 30, 1985. In fiscal year 1985-86 the center corrected the error and properly reported cash and property held in trust balances.

RECOMMENDATION #29-1

WE RECOMMEND THE CENTER:

A. REVIEW SBAS REPORTS DURING THE FISCAL YEAR-END CLOSING PERIOD AND INVESTIGATE UNUSUAL BALANCES.

B. ESTABLISH PROCEDURES TO ACCURATELY REPORT ACCOUNT BALANCES ON THE STATE ACCOUNTING RECORDS AS REQUIRED BY STATE POLICY.

C. DETERMINE THE OWNERSHIP OF THE BALANCE IN THE FEDERAL SPECIAL REVENUE FUND AND TRANSFER THE BALANCE TO THE APPROPRIATE ENTITY.

RESPONSE #29-1

A. Concur. The agency will review SBAS 411 reports at fiscal year end, investigate unusual balances, and make the necessary accounting entry. The agency business manager works with central office accounting personnel to investigate unusual balances and negative fund balances on the mid-month 411 report.

B. Concur. As required by state policy, the balance for the donations account will be classified as fund balance rather than properly held in trust and the agency fiscal manager will more closely monitor fund balances for negative figures. The agency business manager works with central office accounting personnel to investigate unusual balances and negative fund balances on the mid-month 411 report.

C. Concur. Ownership of the balance in the Federal Special Revenue Fund (Chapter 1) has been determined to be the state. The balance of the Federal Special Revenue Fund has been transferred to state funds.

MOUNTAIN VIEW SCHOOL (86-3)

30-1. Accounting Issues

(CFDA #16.999, 10.555, 10.550, 84.013)

Each state agency is required to follow state accounting policy as outlined in the Montana Operations Manual. The situations discussed below are cases where accounting procedures applied by Mountain View School (MVS) did not comply with state accounting policy.

1. Because the Department of Institutions, Central Office, (ICO) was the administering agency for the federal boarder accounting entity during fiscal year 1983-84 and fiscal year 1984-85, cash was moved from MVS's records to ICO's records at fiscal year-end. When the cash was transferred back to MVS's records at the beginning of fiscal year 1984-85, the wrong account was used. This error resulted in prior year revenue adjustments and beginning fund balance being understated by $53,063.

2. On two separate occasions, in attempting to record transactions, MVS made errors in the accounting records. As a result, MVS overstated prior year revenue adjustments by $6,160 in the Federal Boarder Program and $4,187 in the School Food Programs.

3. MVS recorded, at fiscal year-end 1984-85, $4,914 as a prior year revenue adjustment for Chapter I funds. MVS personnel were unable to explain why prior year revenue was used. The Montana Operations Manual requires adequate support documentation of all transactions.

4. MVS received the May 1985 payment for $3,686 from the Office of Public Instruction (OPI) for meals provided in the School Food Programs. Since these programs are on a reimbursement basis, these moneys received should have been recorded as revenue upon receipt. MVS mistakenly recorded this revenue as deferred revenue.

5. When MVS received a $1,338 payment for meals provided for the School Food Programs from OPI in fiscal year 1984-85, it properly recognized the revenue. MVS personnel subsequently made accounting errors related to this receipt which resulted in understating revenue and overstating deferred revenue by $1,338 as of June 30, 1985.

6. Merchandise inventory is recorded on the accounting records as $194,924 at June 30, 1986. The errors discussed in (B) and (C) below result in merchandise inventory being overstated by $148,408 at June 30, 1986. The recorded balance is comprised of the following items:

A. MVS took a physical count of supplies, clothing, and food which totaled $46,516. This is the amount MVS should have recorded at June 30, 1986, as merchandise inventory.

B. The physical inventory balance decreased by $19,973 from June 30, 1985, to June 30, 1986. An error was made and the inventory balance on the accounting records was increased by $19,973. MVS personnel attempted, incorrectly, to correct this error twice. The result was overstating inventory by $79,892.

C. The remaining $68,516 balance was not supported by the physical count. MVS personnel were unable to explain the unsupported amount of inventory. They indicated this balance may be old office furniture, cottage furniture, and fixtures. These items should not be recorded as merchandise inventory.

Most of these errors occurred during fiscal year 1984-85. We were unable to determine why most of these errors occurred because of turnover in personnel and a limited amount of supporting documentation for accounting transactions. MVS personnel should review their accounting records to ensure transactions are properly recorded and supported.

RECOMMENDATION #30-1

WE RECOMMEND MOUNTAIN VIEW SCHOOL ENSURE TRANSACTIONS ARE PROPERLY RECORDED AND SUPPORTED IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #30-1

Concur. Accounting records are now supported with proper documentation and the original documents are reviewed for the accuracy of each transaction.

30-2. Financial Reports

(CFDA #10.553, 10.555)

The federal government mandates the subrecipients of the School Food Programs to file monthly financial reports. MVS files its reports with the Office of Public Instruction (OPI). OPI uses this information to compute average meal costs each year and subsequently to determine the category of the school's need. This information is then provided to the federal government for its use in administering these programs.

MVS did not file its June 1986 report. MVS personnel indicated that June's information was provided orally to OPI.

RECOMMENDATION #30-2

WE RECOMMEND MOUNTAIN VIEW SCHOOL FILE MONTHLY FINANCIAL REPORTS FOR THE SCHOOL FOOD PROGRAMS AS REQUIRED BY FEDERAL REGULATIONS.

RESPONSE #30-2

Concur. Monthly financial reports for the school food program are being filed with the Office of Public Instruction on the proper forms and in a timely manner.

30-3. Indirect Cost Recovery

(This issue could affect all of the school's federal assistance. During the audit period, the school expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Justice, and Department of Education.)

The federal government recognizes and provides for reimbursement to state agencies for indirect costs incurred in the administration of federal grants. Federal guidelines indicate that, for agencies using a single rate method, indirect cost rates are computed by dividing the allowable indirect costs by the net total expenditures (total allowable expenditures minus indirect costs). We noted two problems with the school's indirect cost calculations.

First, MVS did not calculate the fiscal year 1985-86 indirect cost rate properly. The Statewide Cost Allocation Plan (SWCAP) expenditures are considered indirect costs. In computing fiscal year 1985-86 indirect cost rates, MVS did not include SWCAP expenditures as part of the indirect costs. This resulted in the indirect cost rate being too low.

Second, MVS used this incorrect rate to calculate the indirect cost recoveries. State law directs agencies to recover indirect costs to the fullest extent possible and to deposit those collections to the credit of the General Fund. MVS did not have support for the indirect cost recovery revenue to the General Fund for fiscal year 1984-85 or 1985-86. The business manager was unable to explain why the amounts of indirect cost recoveries did not agree to the product of the indirect cost rates and the base costs. We determined the

General Fund was under-reimbursed by $291 for fiscal year 1984-85 and over-reimbursed by $29 for fiscal year 1985-86.

RECOMMENDATION #30-3

WE RECOMMEND MOUNTAIN VIEW SCHOOL:

A. PROPERLY COMPUTE THE INDIRECT COST RATE TO ENSURE MAXIMUM REIMBURSEMENT TO THE GENERAL FUND.

B. MAINTAIN ADEQUATE SUPPORT DOCUMENTATION FOR THE INDIRECT COST RECOVERY REVENUES RECORDED ON THE ACCOUNTING RECORDS.

RESPONSE #30-3

A. Concur. This was an oversight. The indirect cost rate is now calculated properly.

B. Concur. Adequate support documentation for the indirect cost recovery revenues is now attached to SBAS documents.

30-4. Segregation of Funds

(CFDA #10.553, 10.555)

Section 17-2-103(3), MCA, requires "Each federal grant or other federal money within any subfund or account . . . must be identifiable as a separate accounting entity, reporting center, responsibility center, or revenue identification code, and an account must be made of each such grant or other money by income and expenditure for each federal grant year or fiscal year as may be applicable."

MVS does not account for the School Breakfast Program and School Lunch Program expenditures separately. These programs are separate federal programs as defined by the Catalog of Federal Domestic Assistance. MVS should separately account for each program's expenditures to ensure compliance with state law.

RECOMMENDATION #30-4

WE RECOMMEND MOUNTAIN VIEW SCHOOL ACCOUNT FOR THE SCHOOL LUNCH AND SCHOOL BREAKFAST PROGRAMS SEPARATELY.

RESPONSE #30-4

Concur. Mountain View School now accounts for revenues and expenditures in the two programs separately.

30-5. Federal Classification

(CFDA #16.999)

MVS contracts with the federal government for care of residents in federal jurisdiction. MVS recorded the revenue received under this program as service fees in fiscal year 1985-86 and reimbursements in fiscal year 1984-85.

State policy requires revenue from all federal sources, except for federal indirect cost recoveries, be classified as federal revenue. Therefore, MVS should record revenue received under this program as federal revenue. Federal revenue is understated in the Special Revenue Fund by $28,080 and $17,041 in fiscal year 1985-86 and 1984-85, respectively.

RECOMMENDATION #30-5

WE RECOMMEND THAT MOUNTAIN VIEW SCHOOL PROPERLY CLASSIFY FEDERAL REVENUES.

RESPONSE #30-5

Concur. Federal revenue received is now classified as federal revenue in the state accounting system.

PINE HILLS SCHOOL (86-26)

31-1. Contracted Services

(CFDA #84.013, 84.151)

During the audit period the school contracted with summer school instructors, substitute teachers, and coaches. These individuals were not paid as employees through the central payroll system under the State Auditor's Office and thus did not receive any employee benefits. The salaries were charged to contracted services and paid by transfer warrant claim.

Because the school has supervisory discretion and control over these individuals and the services are not outside the usual course of business for the school, the school should recognize and pay these individuals as employees rather than independent contractors. State and federal laws require employers to withhold income and Social Security taxes from employee wages. Under state law, the employer must also pay state unemployment and workers' compensation insurance. Since the school treated certain employees as independent contractors, it did not withhold or pay state and federal taxes on their salaries. Under the tax laws, if the school should have withheld taxes from an employees salary but did not do so because the employee was treated as a private contractor, the school would be liable for an additional tax. Salaries for these individuals that were charged to contracted services amounted to $6,800 in fiscal year 1984-85 and $12,535 in fiscal year 1985-86.

A school official indicated these services were charged as contracted services to reduce the costs associated with using central payroll and paying benefits to those employees. The official stated that the school changed its policy in July 1986 and no longer charges summer school instructor salaries to contracted services.

RECOMMENDATION #31-1

WE RECOMMEND THE SCHOOL:

A. RECOGNIZE SUMMER SCHOOL INSTRUCTORS, SUBSTITUTE TEACHERS, AND COACHES AS EMPLOYEES AND PAY THE APPROPRIATE BENEFITS.

B. RECORD THE ASSOCIATED COSTS AS PERSONAL SERVICE EXPENDITURES IN THE ACCOUNTING RECORDS.

RESPONSE #31-1

A. Partially concur. All summer school instructors, substitute teachers, and coaches who are employees will be treated as FTE and paid from personal services with appropriate benefits. Pine Hills School has requested an opinion from the Department of Labor & Industry as to the status of coaches who are not also employees as to whether or not they can be considered an independent contractor.

B. Concur.

31-2. Accounting Issues

(CFDA #10.553, 10.555, 16.999, 84.013, 84.151)

The Montana Operations Manual and management memos issued by the Department of Administration, Accounting Division, provide agencies with guidelines and certain requirements for recording activity on the Statewide Budgeting and Accounting System (SBAS). Individual agency deviations or omissions can result in accounting procedures which are not in compliance with state policy. During our audit of the Pine Hills School, we noted deficiencies regarding the school's compliance with those policies and guidelines.

31-2A. Cash Transfers

(CFDA #16.999)

The school had several accounting entities for which the Department of Institutions (ICO) was the administering agency during fiscal years 1983-84 and 1984-85. Cash was closed into the combined entities using cash and fund balance. When ICO reestablished cash in these accounts, revenue and prior year revenue adjustment control accounts were used. Cash should have been reestablished using fund balance. The school should have reviewed the transactions to ensure the proper entries were made. By not using fund balance to reestablish cash, the following accounts were misstated in the Special Revenue Fund for fiscal year 1984-85:

	Overstated (Understated)
Investment Earnings	$30,761
Federal Assistance	5,340
Reimbursements	15,926
Prior Year Revenue Adjustment	46,244
Direct Entries to Fund Balance	(5,783)

RECOMMENDATION #31-2A

WE RECOMMEND THE SCHOOL ENSURE TRANSACTIONS PROCESSED BY OTHER STATE AGENCIES ARE PROPERLY RECORDED AND IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #31-2A

Concur. The school now reviews for accuracy any transactions processed by other state agencies.

31-2B. Revenue Classification

(CFDA #16.999)

The federal government contracts with the school to provide for the custody of federal offenders. The federal government pays a specified rate per day for the care and custody of the federal boarders.

Pine Hills School improperly classified the revenue received for federal boarders as reimbursements in fiscal year 1984-85 and as service fees in fiscal year 1985-86. State policy requires that revenue from all federal sources, including grants, contracts, entitlements, reimbursements, and other federal aid except for federal indirect cost recoveries be classified as federal assistance. Because of the misclassification, reimbursements were overstated by $49,051 in fiscal year 1984-85 and service fees were overstated by $56,980 in fiscal year 1985-86. Federal assistance was understated by the same amounts in fiscal year 1984-85 and fiscal year 1985-86.

RECOMMENDATION #31-2B

WE RECOMMEND THE SCHOOL CLASSIFY REVENUE RECEIVED FOR FEDERAL BOARDERS AS FEDERAL ASSISTANCE.

RESPONSE #31-2B

Concur. Federal boarder revenue will be recorded as federal assistance in the state accounting system.

31-2C. Prior Year Revenue Adjustments

(CFDA #10.553, 10.555)

In our last audit, we noted that Pine Hills School claimed reimbursement for meals served to participants who were ineligible under the School Food Program regulations. We recommended the school calculate the amount owed to the Montana Office of Public Instruction for ineligible students. During the audit period the school calculated this amount for fiscal years 1982-83 and

1983-84. However, it charged this refund against current year revenue. This overstated prior year revenues by $2,210 and understated current year revenues by the same amount in fiscal year 1984-85. The Montana Operational Manual (MOM) states that the prior year revenue adjustment account is used to identify corrections to a previous year's revenue that should not be an adjustment to current year's beginning fund balance.

RECOMMENDATION #31-2C

WE RECOMMEND THE SCHOOL RECORD REFUNDS FOR INELIGIBLE STUDENTS IN THE SCHOOL FOOD PROGRAMS USING THE PROPER REVENUE ACCOUNT.

RESPONSE #31-2C

Concur. The refund for ineligible students in the school food programs should have been charged against prior year revenue. Measures have been taken to ensure this will not happen again.

31-2D. Expenditure Accruals

(CFDA #84.013, 84.151)

We tested six accruals to determine if they were properly coded. State policy requires that an agency must indicate on the accrual document when the item was received or service performed (before or after June 30) through the use of special coding. Four out of six accruals tested were incorrectly coded. This resulted in errors of $18,114 in fiscal year 1984-85 and $22,353 in fiscal year 1985-86.

School officials indicated that the problems were due to a misunderstanding of coding the teachers' salary accruals and also because of a clerical error. The Department of Administration's Accounting Division utilizes the special coding for the preparation of the state of Montana's Comprehensive Annual Financial Report (CAFR). Without proper coding, accruals are misstated in the CAFR.

RECOMMENDATION #31-2D

WE RECOMMEND THE SCHOOL USE PROPER CODING ON EXPENDITURE ACCRUAL DOCUMENTS.

RESPONSE #31-2D

Concur. Measures have been taken to ensure the school uses proper coding on future expenditure accrual documents.

31-2E. School Food Programs

(CFDA #10.553, 10.555)

Pine Hills School did not account for the School Breakfast Program and the School Lunch Program separately during fiscal years 1984-85 and 1985-86.

Section 17-2-103(3), MCA, requires that each federal grant or other federal money within any subfund must be identifiable as a separate accounting entity, reporting center, responsibility center, or revenue identification code, and an account must be made of each such grant or other money by income and expenditure for each federal grant year or fiscal year as may be applicable. School personnel said they were not aware of this law.

RECOMMENDATION #31-2E

WE RECOMMEND THE SCHOOL ACCOUNT FOR THE SCHOOL BREAKFAST AND SCHOOL LUNCH PROGRAMS SEPARATELY ON ITS ACCOUNTING RECORDS.

RESPONSE #31-2E

Concur. The school lunch and school breakfast programs are now being accounted for separately on the school's accounting records.

31-3. Purchasing Regulations

(CFDA #10.553, 10.555, 16.999, 84.013, 84.151)

The Department of Administration's Purchasing Division recently completed a review on the school's purchasing procedures. The purpose of the review was to determine areas of compliance or non-compliance with state purchasing laws and the effectiveness and efficiency of the purchasing activities of the school. The following concerns were identified in their report:

1. Competitive bidding is required by state law (section 18-4-302, MCA) for contracts over $300. The school did not seek competitive bids for dairy and pharmaceutical products. The school rotated the contracts for these products with different vendors every six months.

2. The school purchased a number of items that are normally stocked at the division's central store. The purchasing agreement requires the school to purchase items that are stocked at Central Stores. Central Stores offers a savings to state government through volume purchases of items.

3. An agreement exists between the school and the Purchasing Division which requires all items estimated to cost over $2,000 individually, like items on a single requisition, or yearly contracts with an estimated combined total over $2,000 to be purchased by the Purchasing Division. The school exceeded the $2,000 limit for the combined contract total for some yearly services such as laundry.

Other concerns identified in the review were related to inadequate documentation for sole source and emergency purchases, not submitting certain reports to Purchasing Division, and not identifying all the shipment delivery points for freight.

RECOMMENDATION #31-3

WE RECOMMEND THE SCHOOL IMPLEMENT PROCEDURES TO ENSURE COMPLIANCE WITH THE STATE'S PURCHASING REGULATIONS.

RESPONSE #31-3

Concur. The school has implemented procedures to ensure compliance with the state's purchasing regulations.

31-4. Inventory Control

(CFDA #10.550)

In our review of the inventory system at the school, we identified the following two internal control concerns:

1. The employee receiving janitorial, hardware, electrical, and plumbing goods is also responsible for the perpetual inventory records.

2. The employee who accounts for the food commodities inventory perpetual records also does the physical count at year-end.

The school received approximately $267,000 in fiscal year 1984-85 and $277,000 in fiscal year 1985-86 of inventories including food commodities. Because the inventory is significant, the school should develop a separation of duties between the receiving, recording, and the physical counting of inventory items. Lack of internal controls over inventories creates the possibility of unauthorized use or disposition of inventories. A school official indicated that the lack of separation of duties was primarily due to a shortage of employees in the warehouse and trying to divide the workload evenly for the warehouse employees. The school could realign the duties of warehouse employees and use employees that work outside the warehouse to perform physical counts to strengthen inventory controls.

RECOMMENDATION #31-4

WE RECOMMEND THE SCHOOL ESTABLISH A SEPARATION OF FUNCTIONS FOR RECEIVING, RECORDING, AND PHYSICAL COUNTING OF INVENTORIES.

RESPONSE #31-4

Concur. Procedures have been established that will ensure a separation of functions for receiving, recording, and physical counting of inventories.

SWAN RIVER YOUTH FOREST CAMP (86-27)

32-1. Recognition of Financial Activity

(CFDA #10.553, 10.555, 16.999)

According to state accounting policy, the camp should generally recognize expenditures in the year materials or services are received. It should recognize revenues when the amount is known or reasonably estimated, and can be collected timely enough to pay existing liabilities.

Two of the camp's Special Revenue Fund accounts record personal service and operating expenditures that are reimbursed by the federal government for the federal boarder and school food programs. Consequently, the camp should charge expenditures equal to the revenue earned in these two accounts.

Other expenditures incurred by the camp, that are not reimbursed, are charged to and funded by the General Fund. By recording expenditures equal to the revenue earned in the Special Revenue Fund accounts, the camp would ensure it uses non-General Fund moneys before General Fund appropriations, in accordance with section 17-2-108, MCA.

During our testing, we noted the camp does not follow state accounting policy when recording expenditures in these Special Revenue Fund accounts. Instead, the camp is recording expenditures in the Special Revenue Fund when cash reimbursement is received and disbursed to reimburse the General Fund. Since the camp does not receive cash reimbursement for fiscal year-end expenditures until the following fiscal year, fiscal year-end expenditures are recorded in the General Fund.

Camp personnel stated they record reimbursable expenditures in the General Fund as a means to overcome the cash flow problems inherent in a reimbursement account. In order to correctly record reimbursable expenditures and provide the necessary operating cash, the camp could obtain a noninterest bearing inter-entity loan to the Special Revenue Fund. Inter-entity loans are provided for in section 17-2-107(2), MCA.

As a result of the accounting procedures used, we issued a qualified opinion on the Schedule of Changes in Fund Balances of the Swan River Youth Forest Camp for the two fiscal years ended June 30, 1986. General Fund expenditures are understated and Special Revenue Fund expenditures are overstated by $14,367 in fiscal year 1984-85. General Fund expenditures are overstated and Special Revenue Fund expenditures are understated by $10,208 in fiscal year 1985-86. The accumulated effect of using the accounting procedures results in the June 30, 1986 fund balance in the Special Revenue Fund being overstated by $14,062. In addition, the camp improperly used $10,208 of General Fund appropriations before non-General Fund moneys in fiscal year 1985-86.

<u>RECOMMENDATION #32-1</u>

WE RECOMMEND THE CAMP:

A. RECORD REIMBURSABLE EXPENDITURES IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

B. USE NON-GENERAL FUND MONEY BEFORE GENERAL FUND APPROPRIATIONS.

RESPONSE #32-1

A. Concur. The camp is now recording reimbursable expenditures in accordance with state accounting policy.

B. Concur. The camp will make every effort to utilize non-General Fund money before General Fund appropriations.

32-2. Accounting Issues

(CFDA #10.553, 10.555, 16.999, 84.013, 84.048)

Each state agency is required to follow state accounting policy as outlined in the Montana Operations Manual (MOM). The situations discussed below are cases where the camp's accounting procedures did not comply with state accounting policy.

1. Because the Department of Institutions, Central Office, (ICO) was the administering agency for the federal boarders and canteen programs during fiscal year 1983-84, cash was moved from the camp's records to ICO's records at fiscal year-end. When ICO transferred the cash back to the camp's records at the beginning of fiscal year 1984-85, the wrong account was used. This resulted in prior year revenue adjustments being overstated and direct entries to fund balance understated in the Special Revenue Fund by $29,278.

2. The camp incorrectly recorded, at fiscal year-end 1984-85, accounts receivable and deferred revenue for both the federal boarder and the school lunch programs. The camp was unable to explain the source of the amounts. MOM requires adequate support documentation of all transactions. In addition, state policy requires only the portion of grant moneys received in advance of expenditures actually made be recorded as deferred revenue. Since these programs are on a reimbursement basis, the camp should not have recorded deferred revenue.

3. The camp did not establish deferred revenue for unspent vocational education moneys. As a result, deferred revenue is understated and revenue is overstated by $1,193 in the Special Revenue Fund at fiscal year-end 1985-86.

4. The camp improperly recorded merchandise inventory in its Education Consolidation and Improvement Act (ECIA), Chapter I account. Camp personnel indicated the inventory consisted of food

commodities received in fiscal year 1983-84 and of software, books, filmstrips, etc. purchased. Currently, there is not a state policy which requires the camp to record food commodities on the state's accounting records. Since the software, books, filmstrips, etc. are not for resale or consumption, the camp should not record these items as inventory.

We were unable to determine why most of the errors occurred because of turnover in personnel, and because of a limited amount of supporting documentation for accounting transactions.

The camp could reduce the number of accounting errors by providing training to personnel who code, review, and approve accounting documents. The training should enable the camp to record transactions in accordance with state accounting policy.

The person responsible for reviewing and approving accounting documents should also review the monthly accounting reports for reasonableness. The camp could detect some coding errors by reviewing the monthly general ledgers and determining the cause of unusual items.

RECOMMENDATION #32-2

WE RECOMMEND THE CAMP:

A. PROVIDE ACCOUNTING TRAINING TO CAMP PERSONNEL.

B. REVIEW MONTHLY ACCOUNTING REPORTS FOR REASONABLENESS.

RESPONSE #32-2

A. Concur. The camp will provide accounting training to personnel who code, review, and approve accounting documents.

B. Concur. The camp reviews monthly accounting reports for reasonableness and makes necessary corrections.

32-3. Segregation of Duties

(CFDA #10.550)

In our prior and current audits, we noted the camp does not have adequate segregation of accounting and authorization functions over the accounting system. The lack of segregation of duties weakens the control over the discovery and correction of errors. For example, the accounting technician

both prepared and authorized the camp's accounting documents. State policy requires all SBAS documents be signed by an appropriate supervisor. Camp personnel indicated the superintendent was not available to sign the documents at the time the documents were prepared.

In addition, the camp maintains the resident accounts in a non-treasury checking account. The camp and state policy require two authorized signatures on each check written on the resident accounts. During our review of checks, we noted two instances in a two-month period in fiscal year 1985-86 where checks had only one authorized signature. Furthermore, the individual who authorized the checks also prepared them and balanced the bank statement.

Finally, we noted the food service manager does the ordering and receiving of goods, the taking of inventory, and the review of usage for the food commodity program.

Camp personnel indicated there is a lack of personnel to ensure strong internal controls. Even though the camp is a smaller agency, it could segregate some of the duties among existing personnel.

RECOMMENDATION #32-3

WE RECOMMEND THE CAMP:

A. SEGREGATE THE DUTIES OVER ITS FINANCIAL SYSTEMS.

B. REQUIRE TWO AUTHORIZED SIGNATURES ON EACH CHECK WRITTEN ON RESIDENT ACCOUNTS.

RESPONSE #32-3

A. Concur. The camp recognizes the need for segregation of duties and has now accomplished that to the fullest extent that it is feasible. Due to the limited number of staff, however, optimal segregation cannot be accomplished.

B. Concur. The checking accounts are set up to require two signatures at this time.

32-4. School Food Programs

(CFDA #10.553, 10.555)

The camp did not account for the school breakfast and the school lunch programs separately during fiscal years 1984-85 and 1985-86. These programs

are separate federal programs as defined by the Catalog of Federal Domestic Assistance. Section 17-2-103(3), MCA, requires that each federal grant or other federal money within any fund must be identifiable as a separate accounting entity, reporting center, responsibility center, or revenue identification code, and an account must be made of each such grant or other money by income and expenditure for each federal grant year or fiscal year as may be applicable. Camp personnel were not aware of this law.

RECOMMENDATION #32-4

WE RECOMMEND THE CAMP ACCOUNT FOR THE BREAKFAST AND SCHOOL LUNCH PROGRAMS SEPARATELY ON ITS ACCOUNTING RECORDS.

RESPONSE #32-4

Concur. The school lunch and school breakfast programs are now accounted for separately on the camp's accounting records.

32-5. Cash Management

(CFDA #84.013)

During fiscal year 1984-85 and 1985-86, the camp received federal ECIA Chapter I funds. The camp receives these funds on an advance basis through the state Office of Public Instruction (OPI). We noted excessive cash balances in our prior audit and in all 12 months of fiscal year 1984-85 and 4 months in fiscal year 1985-86.

Under the terms of its letter of credit, OPI may order as much as three days' supply of cash from the federal government. Federal regulations require the cash advances made to subrecipients conform substantially to the same standards of timing and amount as apply to advances to OPI. Excessive cash balances resulted because, during the audit period, OPI required the camp to request its estimated cash needs for the subsequent quarter.

Beginning in fiscal year 1986-87, the camp began requesting cash from OPI on a monthly basis. We reviewed the cash balances for the first five months of fiscal year 1986-87 and noted the cash balances were reasonable.

Therefore, we disclose this issue for information purposes and make no recommendation at this time.

MONTANA VETERANS' HOME (86-28)

33-1. Recognition of Financial Activity

(CFDA #64.015)

State accounting policy defines when the home should record expenditures and revenue. Generally, the home should recognize expenditures in the year materials or services are received. It should recognize revenues when the amount is known or reasonably estimated, and can be collected timely enough to pay existing liabilities.

The home has two Special Revenue Fund accounts for recording personal service and operating expenditures. These expenditures are fully reimbursed by the Veterans' Administration and other third parties including Medicaid, Medicare, and private insurance companies. As a result, the amount of expenditures charged should equal the revenue earned in these two accounts. All other expenditures incurred by the Veterans' Home, that are not reimbursed by third parties, should be charged to and funded by the General Fund. The home's accounting procedures should ensure the use of non-General Fund moneys before General Fund appropriations, in accordance with section 17-2-108, MCA.

The following section discusses the accounting for the home's reimbursable financial activity.

Accounting Procedures

During our testing, we noted that the home is correctly recording revenue, but is not correctly recording expenditures in accordance with state accounting policy. Instead, the home is recording expenditures when cash is disbursed. Since cash reimbursement for the home's fiscal year-end expenditures is not received until the following fiscal year, fiscal year-end expenditures are being recorded in the General Fund. The home does not record expenditures in the Special Revenue Fund until the following fiscal year when reimbursement cash is received and used to either reimburse the General Fund or to cover current year costs. The expenditures should have

been recorded in the Special Revenue Fund by fiscal year-end in accordance with state policy.

Veterans' Home personnel stated that they have been recording reimbursable expenditures in the General Fund as a means to overcome the cash flow problems inherent in a reimbursement account. For example, the home is incurring costs throughout the fiscal year, but is not receiving cash reimbursement until 60 to 150 days later. In order to correctly record reimbursable expenditures and provide the necessary operating cash, the home should obtain a noninterest bearing inter-entity loan to the Special Revenue Fund. Inter-entity loans are statutorily provided for in section 17-2-107(2), MCA.

As a result of the accounting procedures used, the home improperly used General Fund appropriations before non-General Fund moneys. General Fund expenditures are overstated and Special Revenue Fund expenditures are understated by $66,859 and $5,197 in fiscal year 1984-85 and fiscal year 1985-86, respectively. In addition, the accumulated effect of using the procedures resulted in fund balance in the Special Revenue Fund being overstated by $219,103 at June 30, 1986.

RECOMMENDATION #33-1

WE RECOMMEND THE HOME:

A. RECORD REIMBURSABLE EXPENDITURES IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

B. USE NON-GENERAL FUND MONEY BEFORE GENERAL FUND APPROPRIATIONS.

RESPONSE #33-1

A. Concur. The Montana Veterans' Home is now recording reimbursable expenditures in accordance with state accounting policy.

B. Concur. Due to cash flow problems, the Montana Veterans' Home is utilizing non-interest bearing inter-entity loans to meet this recommendation.

MONTANA STATE HOSPITAL (86-1)

34-1. Handicapped Child Counts

(CFDA #84.010)

Montana State Hospital received $17,025 and $2,211 in fiscal years 1984-85 and 1985-86, respectively, from federal Education Consolidation and Improvement Act (ECIA) Chapter I funds to educate emotionally disadvantaged children. Funding for this grant is based upon the number of eligible children enrolled in the program. Program activity decreased when the Children's Unit moved to the Montana Youth Treatment Center in April 1985.

The hospital education director included two patients on the ECIA Chapter I child count report who were not eligible for the program at the time of the count. One patient had completed high school and three quarters of college. Another had been released from the hospital six months prior to the count. Both mistakes resulted from human error. We found errors in the child counts in our previous two audits and questioned the allowability of ECIA Chapter I grant costs.

The hospital received an allocation of $3,238 and spent only $2,211 of its Chapter I allocation for fiscal year 1985-86. According to the hospital education director, grant funds were used for materials, supplies, equipment purchase and repairs related to handicapped education. These categories were allowable in the approved 1985-86 grant agreement. The hospital did not allocate salary expense to grant funds in fiscal year 1985-86 as they did in 1984-85. An amendment to the grant agreement with the Office of Public Instruction would have enabled the hospital to pay grant related salary expense. ECIA Chapter I grant regulations permit reallocation of unexpended current grant funds to the next fiscal year. However, the hospital, as a subrecipient of ECIA Chapter I funds, must expend all current funds to be eligible to receive the reallocation.

Although we agree with hospital personnel that grant funds should not be spent on items that are not needed, we believe that available grant funds should be used to offset qualified program expenses.

RECOMMENDATION #34-1

WE RECOMMEND THE HOSPITAL:

A. REPORT ECIA CHAPTER I CHILD COUNT IN ACCORDANCE WITH FEDERAL REGULATIONS.

B. CHECK PATIENT RECORDS TO ENSURE THE ACCURACY OF THE COUNT.

C. USE AVAILABLE ECIA CHAPTER I FUNDS TO MEET EXPENSES THAT QUALIFY UNDER THE GRANT.

RESPONSE #34-1

A&B. Concur. The responsibility has been assigned and procedures put into place which will ensure compliance to these two recommendations.

C. Concur. The Education Director is reviewing the records of all Chapter I participants to ensure compliance with federal regulations. A thorough review has been made to ensure grant funds are used to the greatest degree possible to offset qualified grant expenses.

MONTANA YOUTH TREATMENT CENTER (86-35)

35-1. Federal Compliance

(CFDA #10.555)

In fiscal year 1985-86 the Montana Youth Treatment Center (the center) received $30,113 in federal funds for the School Foods Program. These funds were received as a subgrant from the Office of Public Instruction (OPI).

We tested compliance with the subgrant requirements through examination of a sample of report items. We traced this sample to support documentation to ensure the accuracy of the amounts reported. We noted the following problems with School Foods:

1. In four out of fifteen days tested the number of students reported on the federal report as having meals did not agree to the daily meal census support.

2. Tests performed to ensure the number of students reported for meals in the federal report did not exceed the total number of students at 2the center revealed a discrepancy in five of the twenty days tested. In one instance, 47 students were reported for breakfast and 39 for

lunch on a day when only 34 students were in residence at the center.

3. The monthly federal report includes line items for the amounts of purchases in several food categories. For one out of three months tested, the invoice support did not agree to the amount reported. The invoices totaled $207 less than the amount reported, thereby overstating usage for the month.

Based on the high percentage of reporting errors detected in our testing which could have an effect on federal reimbursement amounts, we cannot conclude the amount reported as federal reimbursement for school foods is reasonable. It is not practical for us to expand testing to determine the Eligible School Food Program Reimbursements. Because the state sold the center, we make no recommendation; however, the center's records do not support and we question School Foods Program Expenditures of $30,113.

RESPONSE #35-1

The Montana Youth Treatment Center (MYTC) was closed on January 1, 1987. The legislative audit of MYTC covering the fiscal period of July 1, 1985 through June 30, 1986 revealed errors in the census reporting for the number of clients served through the School Foods Program. The limited sample taken to test for accuracy revealed an error rate of approximately 25%. The School Foods Program generated $30,113 in revenue for MYTC. Because the MYTC program was terminated as a state operated institution and the facility sold to a private firm in January of 1987, and because the total receipts were $30,113, we do not believe it would be practical or cost effective to attempt a complete retroactive review of the records to determine the full extent of the error level.

DEPARTMENT OF COMMERCE (87-18)

36-1. Initial Gross Rents

(CFDA #14.156)

The department operates a federal program known as Section 8 Housing, which provides housing assistance to low income families. The program consists of two primary areas referred to as "existing" and "moderate rehabilitation" housing. Expenditures in this program totalled approximately $7.5 million in fiscal year 1985-86 and $8.6 million in fiscal year 1986-87. These expenditures include administrative costs and monthly payments to

approximately 2,600 landlords. We examined a sample of 30 Section 8 payments made to landlords during the audit period. We checked to ensure the initial rent established for the housing unit was not in excess of the established federal Fair Market Rent (FMR) for the county. In two instances, the rent exceeded the FMR by $44/month and $7/month, respectively. Federal regulations state the fair market rent established by federal regulations generally shall not exceed gross rent which is equivalent to the rent requested by the owner plus utilities. Federal regulations do allow a housing authority to approve initial rents, on a unit-by-unit basis, which exceed the FMR by up to 10 percent for up to 20 percent of the authorized units.

According to Section 8 personnel, both errors were the result of clerical or review oversights. Therefore, the Section 8 personnel did not make a conscious decision to approve rents in excess of FMR. The errors resulted in overpayments of $440 for fiscal year 1984-85, $632 for fiscal year 1985-86, and $588 for fiscal year 1986-87. Because these payments were not in accordance with federal regulations, we question their allowability for federal reimbursement.

The Section 8 Housing function is in the process of converting to a new computer system. While the new system should reduce clerical errors, it will not necessarily eliminate them. We discussed with Section 8 personnel the possibility of having an on-screen edit message appear if the gross rent exceeds FMR when the tenant begins participation in the program. We also discussed the creation of an edit report which would list any tenant whose rent exceeds FMR. We recognize there are one time costs associated with the implementation of any of the above edits which would include software enhancement and/or personnel time. However, we believe the benefits outweigh the costs. Such enhancements to the Section 8 Housing assistance payments system will help the department ensure the Section 8 Housing program rents are established in accordance with federal regulations.

RECOMMENDATION #36-1

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE THE GROSS HOUSING RENTS COMPLY WITH FEDERAL REGULATIONS.

RESPONSE #36-1

The department concurs with the recommendation. As of January 1988, the department had a new computer system on line which checks all gross rents against property rents and utility allowances, eliminating errors in calculations.

36-2. Housing Assistance Payment Warrants

(CFDA #14.156)

Each month, for various reasons, Section 8 personnel hold back some warrants for housing assistance payments to landlords. For example, a warrant may be held because the landlord has not made repairs needed to bring the housing unit up to housing quality standards, or the landlord has not signed the lease and contract after a yearly reexamination. Once the repairs are made or the contracts signed, the warrant is mailed to the landlord. While performing audit work at Section 8, we noticed Section 8 personnel do not keep the "hold" warrants in a secure area such as a locked file cabinet. Because the warrants are not adequately safeguarded, the possibility of the warrants being lost or stolen is greater. The value of the "hold" warrants each month can be as high as $10,000.

RECOMMENDATION #36-2

WE RECOMMEND THE DEPARTMENT ADEQUATELY SAFEGUARD HOUSING ASSISTANCE PAYMENT "HOLD" WARRANTS.

RESPONSE #36-2

The department concurs with the recommendation. The Housing Assistance Bureau is in the process of ordering a desk with the security locking system necessary for safeguarding warrants. As of May 1988, warrants are being locked in another desk.

36-3. Payment Verification

(CFDA #14.156)

During the audit period, Section 8 personnel had a procedure designed to ensure proper payments were made for moderate rehabilitation housing assistance. Personnel utilized a batch balancing system to reconcile the total

payments each month to the total payments made the previous month. During our testing of this procedure, we noted that personnel either did not always reconcile or did not document the reconciliation of the differences between the payments made for one month and those of the previous month. Differences as great as $1,880 did not appear to have been resolved.

Section 8 personnel have since changed systems by which housing assistance payments are generated. The new system does not provide for a batch balancing procedure and Section 8 personnel did not implement any replacement procedures. Section 8 officials should implement procedures to ensure landlords receive the proper payments. Such procedures could include periodically comparing client files to payments made and taking any necessary corrective action.

RECOMMENDATION #36-3

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE MONTHLY HOUSING ASSISTANCE PAYMENTS ARE PROPER.

RESPONSE #36-3

The department concurs with the recommendation. The Housing Assistance Bureau now calculates all payments through the new computer system. This system reconciles monthly payments with input documents.

36-4. Accounts Receivable

(CFDA #14.156)

There are occasions where housing assistance payments are made to landlords in error. For example, if a tenant vacated a housing unit on April 25, the May payment might still have been sent to the landlord because the paperwork had not been processed. Section 8 personnel must receive the paperwork by the 20th of the month to avoid sending the next month's rent. Under present procedures, Section 8 notifies the landlords and requests them to return the overpayments.

Section 8 officials do not request the department's Management Services Division to establish an account receivable when the overpayment occurs, nor is any receivable established at year-end for outstanding overpayments. At

fiscal year-end 1986-87, the overpayments due from landlords totalled $7,227. Section 8 officials stated the receivable is not recorded on the accounting records until after two notices have been sent to the landlords. If payment is not received after the second notice, the account is designated as uncollectible and turned over to the Department of Revenue for collection. In order to reflect the proper Section 8 Housing revenues and expenditures on the accounting records at fiscal year-end, Section 8 officials should ensure accounts receivable are properly recorded on the accounting records at fiscal year-end.

RECOMMENDATION #36-4

WE RECOMMEND THE DEPARTMENT ESTABLISH ACCOUNTS RECEIVABLE ON ITS ACCOUNTING RECORDS FOR ALL SECTION 8 HOUSING ASSISTANCE OVERPAYMENTS.

RESPONSE #36-4

The department concurs with the recommendation. The Housing Assistance Bureau is now setting up accounts receivable in the new computer system in order to allow tracking of over-payments.

36-5. Community Development Block Grant (CDBG)

(CFDA #14.228)

Federal regulations require the department to prepare a yearly performance report for the CDBG. When preparing the federal fiscal year 1984-85 performance report, the CDBG officials did not use a consistent cutoff date to gather financial information for the various projects included in the report. For example, some financial information was compiled for the period ending August 15, 1985, and other information for the period ending September 30, 1985. The federal HUD program monitor stated in a letter that states may choose their own cutoff period for the compilation of information in the CDBG performance reports. A CDBG program officer stated that August 15 was selected as the cutoff date but they could not compile all the information at that time so some financial information was compiled as of September 30. The date on the report is August 15.

RECOMMENDATION #36-5

WE RECOMMEND THE DEPARTMENT COMPILE FINANCIAL INFORMATION USING A CONSISTENT CUTOFF DATE FOR THE ANNUAL COMMUNITY DEVELOPMENT BLOCK GRANT PERFORMANCE REPORTS.

RESPONSE #36-5

The department concurs with the recommendation. Beginning with the 1987 report, a consistent cutoff date of June 30 was used, and will continue to be used.

36-6. General Federal Reporting Requirements

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Commerce, Department of Housing and Urban Development, and Department of Transportation.)

When the department prepared the fiscal year 1986-87 Section 8 Certificate program (CFDA #14.156) report, it reported administrative expenditures as $207,811 when the actual expenditures were $207,118. The overstatement of $693 was caused by a transposition error when department personnel compiled the grant expenditure information. The transposition error could result in an overreimbursement from the federal government. The department should ensure the proper amounts are recorded on federal reports.

The department submitted a federal report entitled "Voucher Payment of Annual Contribution and Operating Statement" on September 3, 1987. HUD requires this Section 8 report to be submitted no later than the 20th of the month following the close of the state fiscal year. The state's fiscal year 1986-87 accounting records were closed on July 28, 1987, so the report was due approximately August 20, 1987. A department official indicated that it is difficult to have this report prepared within the given time frame due to all of the work required at the beginning of a new fiscal year.

Another report, a quarterly financial status report to the Economic Development Administration (CFDA #11.302), was filed two months after the due date. A department official stated the financial status report was not submitted on time because there was no financial activity for the quarter the report covered.

The prior audit report also contained a recommendation dealing with timely submission of federal reports.

RECOMMENDATION #36-6

WE RECOMMEND THE DEPARTMENT:

A. CORRECT THE ERROR ON THE SECTION 8 REPORT.

B. SUBMIT REPORTS WITHIN THE TIME FRAME ESTABLISHED BY THE FEDERAL GRANTOR AGENCY.

RESPONSE #36-6

A. The department concurs with the recommendation. Correction of the $693 error appearing on the June 30, 1987 Section 8 Certificates Financial Report will be reflected on the report for the period ending June 30, 1988. This will be completed by Sept. 1, 1988.

B. The department conditionally concurs with the recommendation. The department will submit federal financial reports on all projects as soon as possible after the end of the fiscal period. Section 8 Financial Reports due during the fiscal year-end period will be completed as soon as possible, within constraints on personnel and subject to time available during the state fiscal year-end closing period.

36-7. Indirect Cost Rates

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 36-6.)

The department's Management Services Division negotiates an indirect cost recovery rate each fiscal year with the federal government. Section 17-3-111, MCA, requires state agencies to try to recover, to the fullest extent possible, indirect costs of federal assistance programs. When calculating the fiscal year 1985-86 indirect cost rate, the division did not account for a carry-forward adjustment from previous years and thus did not collect as much in indirect costs as it could have. Division personnel responsible for the calculation stated the carry-forward adjustment was inadvertently left out of the plan. This was due primarily to a change in procedure when the division automated the plan for the first time in fiscal year 1985-86. The error affects

all federal programs. The department's primary federal programs are the HUD Section 8 Housing Program and the HUD Community Development Block Grant.

The amount of undercollection in fiscal year 1985-86 was $57,676 and $148 in the Internal Service Fund and General Fund, respectively. The division included the carry-forward adjustment in its fiscal year 1987-88 indirect cost proposal.

RECOMMENDATION #36-7

WE RECOMMEND THE DEPARTMENT CONTINUE TO REVIEW ITS INDIRECT COST PROPOSALS TO ENSURE ALL CARRY-FORWARD ADJUSTMENTS ARE INCLUDED.

RESPONSE #36-7

The department concurs with the recommendation. We will continue to review the indirect cost proposal to ensure it is prepared properly. The amount of undercollection in fiscal year 1985-86 is being collected in fiscal year 1987-88.

DEPARTMENT OF LABOR AND INDUSTRY (86-10 and 88-5)

37-1. Federal Assistance Accounting

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Health and Human Services, Department of Labor, and Department of Housing and Urban Development.)

The department did not comply with state and federal regulations regarding grantee financial management systems. Federal regulations include the following requirements: the grantee's financial management system shall provide current, accurate, and complete identification of the source and application of funds. In addition, federal regulations mandate an audit of federal assistance expenditures to determine compliance with the regulations and the allowability of costs charged to federal programs. State law, section 17-2-103(3), MCA, requires that each federal grant or other federal money within any subfund must be identifiable as a separate accounting entity, reporting center, responsibility center, or revenue identification code.

Preparation of Grant Expenditure Schedules

To comply with the federal audit requirements we requested the department prepare a schedule of federal assistance expenditures for fiscal years 1984-85 and 1985-86. The schedule would identify the costs charged to various federal programs. Our testing of federal assistance expenditures included a determination of the reasonableness of the schedules. The department did not provide the schedules in a timely manner and the initial schedule for fiscal year 1984-85 was not adequately supported.

We first requested a schedule of federal assistance expenditures for fiscal year 1984-85 in February 1986. We did not receive the schedule until April 1986. We attempted to agree amounts on the schedule to the department's accounting records and found numerous discrepancies. Some of the amounts were from the Statewide Budgeting and Accounting System (SBAS) and some were from a federal cost accounting system used by the department. Still other amounts on the schedule could not be agreed to either accounting system.

We communicated our concerns to the department and requested the discrepancies be resolved. We later met with department officials and discussed the federal regulations and federal audit requirements regarding the schedules of federal assistance expenditures. The department agreed to provide the information necessary to enable us to audit the schedules. We received the revised schedule of federal assistance expenditures for fiscal year 1984-85 in December 1986. The department completed the fiscal year 1985-86 schedule in January 1987. We discuss the results of audit work performed on the revised schedules in the next report section.

The department's difficulty in providing the schedules in a timely manner stemmed from three factors. First, the use of two accounting systems complicated the preparation of the schedules. Second, the department experienced staff turnover in two key accounting positions during the audit period. These positions were not filled for approximately two months. Third, the department did not have written documentation of the accounting procedures used for federal assistance programs. This made the effect of the staff turnover even more severe.

The department's inability to prepare the required schedules for eleven months indicates the lack of an adequate accounting system for identifying

federal assistance moneys. Written procedures for federal assistance accounting would help ensure compliance with the state and federal accounting requirements as well as expedite preparation of the schedules of federal assistance expenditures. The procedures could document the sources of financial information (accounting entities, responsibility centers, etc.) for each grant. Such documentation would aid the department in schedule preparation and would ensure consistency in case of staff turnover.

Audit of Grant Expenditure Schedules

As noted above, the department used two accounting systems in fiscal year 1984-85 to account for federal funds, SBAS and a federal cost accounting system (CAS). Our audit procedures were performed only on SBAS since department personnel had informed us at the outset of the audit that all financial activity was recorded on SBAS. We then requested that the department reconcile amounts recorded on CAS to those recorded on SBAS. The two systems were reconciled to within approximately $90,000. The department also performed a reconciliation of federal assistance expenditures recorded on SBAS and those reported on the schedule of federal assistance expenditures to within approximately $73,000 (.3% of approximately $23.5 million recorded on SBAS).

Based on our audit work, we cannot conclude on the reasonableness of the expenditures reported for individual federal assistance grants due to the unreconciled amounts. However, we concluded that the schedule of federal assistance expenditures for fiscal year 1984-85 was reasonable in total.

We compared the fiscal year 1985-86 schedule of federal assistance expenditures to SBAS by individual grant. We found expenditures for all material grants presented on the schedule were reasonable except the Title III grant. The schedule and SBAS expenditures for that grant differed by $78,655. The department began recording all federal assistance activity on SBAS in fiscal year 1986-87. This should simplify the accounting for federal funds.

Federal Program Expenditures

(CFDA #17.250)

The department prepares periodic expenditure reports for its federal grants. We reviewed the fiscal year 1986-87 Job Training and Partnership Act Title IIA annual financial status report. We noted a $2,648 unreconciled difference between the report and the state's accounting records for fiscal year 1986-87. Federal regulations (OMB Circular A-102 Attachment G) require that recipients of federal grant funds maintain an accounting system that identifies the source and use of federal funds received by the recipient. In addition, federal reports should be supported by the accounting records.

Agency personnel indicated that three different divisions within the department make entries for JTPA expenditures on the accounting records. Several timing differences for larger amounts were identified in the reconciliation of the annual status report to the accounting records prepared by the department.

RECOMMENDATION #37-1

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH AND DOCUMENT ACCOUNTING PROCEDURES FOR EACH FEDERAL AWARD TO DEMONSTRATE COMPLIANCE WITH STATE AND FEDERAL REGULATIONS FOR FEDERAL ASSISTANCE MONEYS.

B. PREPARE ADEQUATELY SUPPORTED SCHEDULES OF FEDERAL ASSISTANCE EXPENDITURES ON A TIMELY BASIS.

C. ADOPT PROCEDURES TO ENSURE FEDERAL FINANCIAL REPORTS ARE SUPPORTED BY THE STATE'S ACCOUNTING RECORDS.

RESPONSE #37-1

A. The Statewide Budgeting and Accounting System provides for general procedures for documenting accounting transactions. The Department is also proceeding with the development of procedures specific to each grant.

B. The Department has provided the auditors with a grant listing in a timely fashion following fiscal year 1987 and the grant list for the 1988 fiscal year, which is closed at the end of July 1988, will be provided to the auditors by the end of August 1988.

C. The Department has converted accounting subsystems to SBAS over the last couple of years. In the past, summary data was input from these subsystems to SBAS. We currently input detail accounting transactions into SBAS which will ensure the Federal Reports match with SBAS. The timeliness of recording the detail transactions on SBAS will also reduce the number of reconciling items.

37-2. Questioned Job Training Partnership Act (JTPA) Costs

(CFDA #17.250)

In accordance with federal and state regulations, the Employment Policy Division (EPD) requested that we conduct an audit of the Dillon Job Service Office's expenditures for the JTPA program. The audit covered fiscal years 1984-85, 1985-86, and one half of 1986-87 and was conducted to identify costs which may be unallowable under JTPA program regulations. We reviewed participant files, tested on-the-job-training (OJT) payments, traced supportive service expenditures, and examined employers' payroll records. The audit report is provided to the EPD as administrative entity for the JTPA service delivery area. Responsibility for the resolution of the audit findings rests with the EPD.

Based on this review, we identified areas of noncompliance with JTPA program regulations and state policy requirements. For example:

1. 79 of 98 participants lacked the required eligibility documentation before services were rendered.

2. 13 of the 79 participants did not have files or any documentation in the Dillon Job Service Office.

3. 17 participants had no prior approval for supportive services such as child care or classroom training. In addition, invoices for supportive services were dated previous to enrollment in the program (state policy).

4. 8 participants were employed two to three weeks before enrollment in the JTPA program.

The JTPA Manual specifically addresses the last two areas by requiring the participant not be previously employed and prior approval be obtained before supportive services are provided. As a result of our review of the

files, we question the allowability of all costs associated with 79 of the 98 participants.

The Dillon Job Service was awarded a total of approximately $126,000 for program years 1984, 1985, and 1986, and spent approximately $96,600 on its JTPA program for those years. Based on the lack of documentation available at the time of the audit and areas of noncompliance noted, we question the allowability of the following costs for the Dillon Job Service Office JTPA program.

QUESTIONED JTPA COSTS

PROGRAM YEAR	II A Adult	II A Youth	Program Year Total
1984 (1984-85)	$20,254.96	$ 5,270.70	$25,525.66
1985 (1985-86)	$25,951.03	$19,563.57	$45,514.60
1986 (6/30-12/31/86)	$ 6,935.55	$ 4,377.95	$11,313.50**
TOTAL QUESTIONED COSTS			$82,353.76*

* includes supportive service expenditures
** includes current on-the-job-training contracts

Source: Compiled by the Office of the Legislative Auditor

We identified similar problems with noncompliance with JTPA program regulations in the Office of the Legislative Auditor's performance audit report, Monitoring of Montana Job Training Programs (86P-39). This report noted noncompliance occurred at the 23 various program operators visited around the state. The program operators continued to use procedures which resulted in noncompliance because the monitoring team had not identified a problem. Lack of eligibility documentation and prior approval for supportive services were two of the areas of noncompliance noted at these operators. The scope of the performance audit was to determine the areas of noncompliance, and did not include identifying potential questioned costs.

Because the scope of this audit was limited to the Dillon Job Service, we did not determine the extent of costs that may have been questioned under JTPA program regulations for the program as a whole.

RECOMMENDATION #37-2

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE COMPLIANCE WITH JTPA PROGRAM REGULATIONS AT THE LOCAL AGENCIES.

RESPONSE #37-2

We concur with recommendations outlined in the audit report.

37-3. Audits of JTPA Providers

(CFDA #17.250)

The Job Training and Partnership Act (JTPA) requires the department to assure that audits of its subgrantees are conducted in accordance with applicable audit standards. During the audit period, the department did not have review procedures to ensure contract audits of the JTPA providers met scope and reporting standards. Without adequate monitoring procedures, the department risks non-compliance with federal requirements related to audits. We examined audit reports on the activity of five of 28 JTPA providers. In all instances examined, the audits met the required standards. Agency personnel are developing an audit monitoring checklist to enable the department to review and document compliance with audit standards.

RECOMMENDATION #37-3

WE RECOMMEND THE DEPARTMENT CONTINUE TO DEVELOP AND IMPLEMENT PROCEDURES TO REVIEW SUBGRANTEE AUDIT REPORTS FOR COMPLIANCE WITH AUDIT STANDARDS.

RESPONSE #37-3

The Employment Policy Division is developing an audit monitoring checklist to enable the dpeartment to review and document compliance with audit standards. This procedure will be in place by January 1, 1989.

37-4. Unemployment Insurance Financial Reporting

(CFDA #17.225)

In accordance with federal audit regulations we reviewed the department's federal financial reports to ensure proper support documentation exists for reports submitted. Federal regulations require the periodic submission of the Unemployment Insurance Financial Transactions Summary (M2-112) for the Unemployment Insurance Program. This report provides a monthly summary of financial activity for the unemployment insurance program. The report we reviewed for the month of June 1986 reported total deposits and disbursements of $5.65 million and $8.56 million, respectively.

The support provided by the department for many of the amounts on the report was a worksheet generated on a microcomputer using a worksheet software package. The department employee using the worksheet did not know what information the worksheet processed or the source of the information. The two people who developed the worksheet were no longer employed by the department. A department official stated that no documentation existed for the worksheet. As a result, we are unable to determine the reasonableness of some of the amounts reported on the M 2-112 report.

A similar finding was included in the performance audit of the department's monitoring of job training programs (86P-39). The department has drafted policies concerning documentation of automated data applications and according to the department's response in the performance audit report, has implemented the policy. The policy would ensure that the microcomputer application used to prepare the M 2-112 report would have an adequate audit trail for verification of amounts included in the report.

RECOMMENDATION #37-4

WE RECOMMEND THE DEPARTMENT DOCUMENT THE PURPOSE AND SOURCE OF INFORMATION ON THE MICROCOMPUTER WORKSHEET USED IN PREPARING THE UNEMPLOYMENT INSURANCE FINANCIAL TRANSACTIONS SUMMARY.

RESPONSE #37-4

Concurs. We have already begun an analysis of the best method to compute dollars needed for the weekly payment of benefits (currently

arrived at using the microcomputer worksheet). Upon selection of the optimum formula, we will build a new and fully documented worksheet. Employees currently using worksheets do know and have documentation for the source of the information they use. We have established a target date of October 1, 1988 to have worksheets fully documented and procedures written and in place.

37-5. Timely Financial Reporting

(CFDA #17.225)

We reviewed the department's Unemployment Insurance federal financial reports to ensure the department submitted the reports in accordance with federal regulations. These regulations specify that the department must submit an Unemployment Insurance Financial Transactions Summaries report for each month within 10 working days of the end of the month. Of the 15 reports tested, we noted four reports were submitted late.

Department personnel indicated a reduction of two positions in the benefits bureau in fiscal year 1986-87 contributed to late submissions in the first half of that year and a high number of protested rate notices in fiscal year 1987-88 diverted staff time from the reporting function.

RECOMMENDATION #37-5

WE RECOMMEND THE DEPARTMENT ENSURE MONTHLY FEDERAL REPORTS ARE SUBMITTED IN A TIMELY MANNER.

RESPONSE #37-5

Concurs. Job priorities will be reevaluated; however, these same staff members are also responsible for the achievement of other federal standards such as the timeliness of deposits and other cash management and accounting functions. We will continue to stress the completion of basic federal requirements as our high priorities.

37-6. Benefit Bank Account

(CFDA #17.225)

The department maintains a separate state treasury bank account to draw checks for unemployment benefits. Beginning with the audit for fiscal years 1975-76 and 1976-77, we noted the bank balance and the department's balance for the account were unreconcilable. In the audits for the two fiscal years

ended June 30, 1977 and June 30, 1984, we recommended the department reconcile the benefit bank account. The department concurred with the recommendations. At June 30, 1984, the difference between the bank and department balances was $5,100. As of June 30, 1986, the bank statement balance was $1,352,561 and the department's records indicated a $618,357 balance, a difference of over $734,000.

The maintenance of a reconciled balance is critical due to the volume of activity in the account. The department issues an estimated 500,000 checks from the account each fiscal year. In the month of June 1986 the department reported deposits of approximately $4.6 million and disbursements of approximately $3.5 million.

The department originally was unable to reconcile the account because of bank errors that were not corrected. Then, during fiscal year 1983-84, the magnetic coding on the department's checks did not line up correctly for the check reader at the bank and the quality of the check coding was poor. These conditions resulted in incomplete listings of cashed checks provided to the department by the bank. The department subsequently purchased checks which the checkreader at the bank could read.

Department personnel decided it would not be cost effective to manually reconcile the account so a decision was made to accept the bank's balance at September 30, 1984. However, the department has not attempted monthly reconciliations of the bank account following the acceptance of this balance.

We determined that reconciliations were still not being performed during the planning of the current audit. We again communicated our concern to the department. The department's response was that a decision had been made to accept the September 30, 1984 balance, but did not address the fact that monthly reconciliations were still not being performed.

The reconciliation process is a primary tool available to the agency to ensure that the accounting records are accurate. If the accounting records are not properly maintained the department cannot properly safeguard these assets. Because the account has not been reconciled the department has no way of determining what the actual cash balance should be. If improprieties or defalcations were to occur they would not be detected, and any errors in the bank account will not be discovered because the department cannot determine the proper cash balance.

Agency personnel indicated in September 1986 that they plan to reconcile the bank account, but it would not be completed prior to the end of December 1986. As of March 1987, the reconciliation is still not completed. The June 30, 1986, difference of $734,204 may be attributable to proper reconciling items, but this cannot be determined without a proper reconciliation.

RECOMMENDATION #37-6

WE RECOMMEND THE DEPARTMENT RECONCILE THE BENEFIT BANK ACCOUNT TO ITS ACCOUNTING RECORDS.

RESPONSE #37-6

Concurs. We were unable to reconcile the correct outstanding amount at Norwest Bank. Because of the problems with the MICR on the checks and the years in which the Benefit Account had not been reconciled it was an impossible task. The action specified in the Department's response was not fulfilled; however, we changed our banking services to FirstBank, Helena on October 1, 1987, which resolved the problem from that date forward. The Benefit Account is now reconciled daily by the Department using accepted principles to reconcile a bank account. The outstanding balance at Norwest Bank of December 31, 1987 (which allowed 3 months to close out) was $95,859.56. The Department showed an outstanding balance of $130,330.55, for a difference of $34,470.99, in the Department's favor.

37-7. Cash Management

(CFDA #14.999, 17.999, 17.500)

The department receives funds from the federal government under various grant agreements. We identified two situations where the department's cash management practices could be improved. The Human Rights Division receives two grants from the U.S. Department of Housing and Urban Development (HUD) and one grant from the Equal Employment Opportunity Commission (EEOC). One HUD agreement has a quarterly payment schedule and the other HUD grant has monthly reimbursements. The EEOC grant specifies a quarterly payment schedule. In addition, the U.S. Treasury only processes checks for these agencies once a month. If the request for payment is not received by the federal government by the eighth day of the month, the department will not receive the funds until the subsequent month.

We noted an instance where the department delayed reimbursement a month by not requesting payment before the monthly cutoff deadline. In addition, the department requested only one reimbursement in the first six months of fiscal year 1987-88 for the HUD grant with monthly payment provisions.

The Workers' Compensation Division receives funds from the U.S. Department of Labor to provide on site training in safety for businesses. The grant agreement permits the department to draw a specified amount each month on a letter of credit drawdown, but the department accountant draws funds quarterly when a cash transaction report is filed.

In addition, the department maintains a $50,000 interentity loan in the Special Revenue Fund from the General Fund to cover the costs of the HUD and EEOC grants prior to reimbursement. Costs associated with these grants consist primarily of personal services. Since Human Rights Division personnel are paid directly from the General Fund, the interentity loan to the Special Revenue Fund account exceeds the amount required to pay grant expenditures charged directly to that account. Based on our analysis, we estimate the department's excess loan balance, over a nine month period, cost the state's General Fund $1,253 in lost interest income.

Because requests are on a reimbursement basis and are for a period of one month or longer, there are time lags between the expenditures and the subsequent federal reimbursements which are funded with state money. The department should have cash management procedures to ensure timely drawdowns of federal grant moneys to cover department expenditures for these grants. In addition, section 17-2-108, MCA, requires agencies to use non-general fund moneys whenever possible before using General Fund moneys. Improved cash management procedures will help the department spend non-general fund money first as required by state law.

RECOMMENDATION #37-7

WE RECOMMEND THE DEPARTMENT ADOPT CASH MANAGEMENT PROCEDURES TO ENSURE TIMELY DRAWDOWN OF FEDERAL GRANT FUNDS.

RESPONSE #37-7

(Human Rights Division)

Federal government delays and reimbursement based contracts are the primary reasons for the interentity loan, not Division delays in vouchering. Even when we submit vouchers in accordance with the vouchering schedules, the federal government does not process them in a timely manner. In general, however, the Human Rights Division agrees that its practices regarding vouchering for payment from federal agencies could be improved. We would note that in the case of 1987-1988 HUD grant referred to in the report, the Division had very few expenditures associated with the grant until the fourth month.

(Workers' Comp Division)

Because of the small amount of cash needed to fund the on site reimbursement program, approximately $10,000 per quarter, the Division of Workers' Compensation makes quarterly requests rather than monthly. Cost of staff time involved in the transaction more than offsets any savings accrued as a result of potential interest earnings from a more frequent draw down.

37-8. Allowance for Uncollectible Accounts

(CFDA #17.225)

The department has not estimated and recorded on SBAS an allowance for uncollectible accounts for unemployment tax receivables. The department concurred with our prior audit recommendation that an allowance be recorded but did not implement it. We sent confirmations to 20 employers to determine if the receivables on the department's records were reasonably stated. Two of the employers were in bankruptcy proceedings and three confirmations were undeliverable. In addition, the department's aging schedule as of June 30, 1986, reported that approximately 67 percent of the $4.9 million receivable was over one year old. These facts indicate that not all accounts are collectible and an allowance for uncollectible accounts should be recorded.

Department personnel stated they forgot to record an allowance for uncollectible accounts at fiscal year-end. They also said they do not have a reasonable basis for estimating the uncollectible accounts. The department concurred with prior recommendations to record an allowance and it should be able to calculate a reasonable estimate based on past collection history and accounts receivable aging reports.

RECOMMENDATION #37-8

WE RECOMMEND THE DEPARTMENT ESTIMATE AND RECORD ON SBAS AN ALLOWANCE FOR UNCOLLECTIBLE UNEMPLOYMENT TAX ACCOUNTS.

RESPONSE #37-8

Concurs. With the passage of House Bill 143, effective July 1, 1987, the Department has clear authority to determine that certain accounts are uncollectible, and to transfer those accounts to the Department of Revenue. The Department has developed a written policy and procedure for determining when an account is uncollectible, and has implemented the procedure.

37-9. Accounts Receivable Cutoff

(CFDA #17.225)

We noted two errors in accounts receivable cutoff. Certain benefits paid by the department are reimbursable by employers. Reimbursable benefits of $108,383 paid by the department in June 1986 were not recorded as a receivable at fiscal year-end 1986. In addition, the department did not record payments of $3,083 received on accounts receivable during the last three days of June 1986 until the following fiscal year. All activity through June 30 should be included in the fiscal year's accounting records.

As a result of these two errors, receivables were understated $105,300 in the Expendable Trust Fund at June 30, 1986.

RECOMMENDATION #37-9

WE RECOMMEND THE DEPARTMENT RECORD ACCOUNTS RECEIVABLE TRANSACTIONS IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #37-9

Concurs. We have completed plans to amend our operating procedures to follow the state accounting practice. Starting June 30, 1988 receivables will be determined as of the last working day of June. The Accounts Receivable run will be processed the last working day of June and any monies received and not input into the computer system will be manually counted. The computer report will be adjusted accordingly.

37-10. Double Reporting

(CFDA #17.250)

In prior audits of the department we recommended the department comply with state accounting policy and eliminate the double reporting of revenues and expenditures in specific department programs. The double reporting occurs in the Special Revenue Fund for the Centralized Services Division and the Job Service Training Division. These situations are explained in the following paragraphs.

Various other programs reimburse the Centralized Services Division for expenditures incurred which benefit the department overall. The Centralized Services Division incurs the expenditures initially. The other programs then transfer cash for the costs allocated to each and again record an expenditure. The Centralized Services Division records revenue when the cash is transferred to it. This method of accounting for the cash transfers overstated revenues and expenditures in the Special Revenue Fund by $482,185 and $670,847 in fiscal years 1984-85 and 1985-86, respectively.

The department improperly recorded revenues and expenditures in the Special Revenue Fund for the transfer of grant moneys between accounts in fiscal year 1984-85. The department subgranted JTPA funds to its Job Service Training Division and recorded revenues and expenditures for both the original grant and the subsequent subgrant. This resulted in an overstatement of revenues and expenditures of $2,032,442 in the Special Revenue Fund in fiscal year 1984-85. Transfers in and transfers out are understated by the same amount. The department corrected this recording procedure in fiscal year 1985-86 and now properly records these transactions in the Special Revenue Fund.

In cooperation with the Department of Administration and the Office of Budget and Program Planning, the department has requested the Centralized Services Division be funded as an Internal Service Fund operation. This procedure eliminates the double reporting of the associated revenues and expenditures. Because the department has taken corrective action we make no recommendation.

37-11. Unemployment Tax

(CFDA #17.225)

The department receives unemployment insurance payroll taxes from employers on a quarterly basis. These payments are based on wages paid by the employer during the quarter. Employers submit a quarterly wage report to the department. We identified several situations where better segregation of duties among employees could improve internal controls over unemployment tax receipts.

-The cashier prepares adjustments to data on the UI tax contributions system. As a result, the cashier has both control of assets and recordkeeping duties. When one employee performs both of these functions, the risk exists of disposing of the asset for personal gain and adjusting the records to relieve oneself of the responsibility for the asset. Although department procedures require a review of the cashier's adjustments by a supervisor, we found no documentation that the supervisor reviewed the adjustments made by the cashier.

-Some large employers submit quarterly wage reports on computer tapes. Programmers run some large employer wage record tapes. According to agency personnel, wage record tapes submitted by employers have non-standard formats and labels. This requires programming alterations so the information can be run on the department's system. Programmers also run the annual reserve ratio job. Since programmers are usually aware of the details in an application program, adequate segregation of duties in the electronic data processing function includes separation of the programming and operations functions. This would prevent programmers from being able to circumvent certain software controls.

-A secretary and a clerk have write access to screens on the unemployment insurance tax system that are used to enter employers quarterly reports, record payments received from employers, make adjustments, and change tax rates and wages. Both employees also receive mail containing quarterly reports and handle payment checks prior to restrictive endorsement. Again these employees have both control of assets and recordkeeping duties. The conflicting duties are contained in the position descriptions.

The department should segregate these duties which would prevent employees from having duties that would enable them to both perpetrate and conceal errors or irregularities.

RECOMMENDATION #37-11

WE RECOMMEND THE DEPARTMENT ENSURE ADEQUATE SEGREGATION OF DUTIES AMONG EMPLOYEES ADMINISTERING UNEMPLOYMENT TAX.

RESPONSE #37-11

Concurs. The cashier prepares adjustment documents correcting input errors on original quarterly reports entered only. He does not have access or enter any data into the UI Tax Contributions system. The adjustment documents made by the cashier are initialed by his supervisor as approved. Starting immediately, adjustment documents prepared by the cashier will be accompanied by a copy of the quarterly report to verify the correct information.The programming performed to enable magnetic tapes to be processed cannot change the wage amounts on the tapes. The wage information is verified by tax personnel after it is updated on the Benefit System. Beginning with the third quarter of 1988, all magnetic tapes will be processed through Production Control, as a program is now being tested to accomplish this. At that time all tapes must be in a standard format or they will be returned to the employer. The programmers will then no longer handle the tape processing. There are limited personnel in the Tax Accounting Section along with a peak workload at the end of the quarter. All personnel must be used to meet the Federal standard of depositing 90% of monies received within three working days of receipt. This is the only period of time there are conflicts with entering data to the tax system and regular duties of opening mail and adjusting employer's accounts. All information entered into the tax system is verified by someone other than the inputter. Due to a change of personnel, the secretarial position that previously opened mail and input during the end of the quarter will no longer perform the input duties. The clerical position that also prepared adjustment documents only inputs original quarterly reports. Starting immediately, any position which enters data into the tax system at the end of the quarter only, will be authorized to enter only during that period. They will cease opening mail or preparing adjustment documents during the periods they are required to input.

37-12. Electronic Data Processing (EDP) Access Controls

(CFDA #17.225)

We noted both the Employer Tax and Unemployment Benefit systems are not covered by policies which require periodic changing of passwords and that in some cases a password was used by more than one individual. We found that in two of the three Job Service offices we visited the passwords had not been changed for three years. In addition, we noted Job Service employees were using easily guessed passwords.

EDP systems typically record attempts to access system data. We found the Employer Tax security system does not automatically terminate users after a specific number of invalid attempts to enter the system. Also, the system does not produce access reports for use by management in monitoring access attempts. For the Employer Tax system there are no procedures in place to ensure access privileges are cancelled when the user terminates employment.

We found access control rules, as currently structured, allow some employees full access to division data and programs even though their job duties do not appear to justify such access. Examples include employees with the following job titles:

Computer Operator Assistant
Computer Operator Technician
Production Control Specialist
Benefits Claims Examiner
Random Audit Claims Clerk
Contributions Accounting Specialist

Because these employees have full access, they can review and/or change data and programs.

During interim fieldwork of our audit of fiscal years 1986-87 and 1987-88, we also noted similar instances.

<u>RECOMMENDATION #37-12</u>

WE RECOMMEND THE DEPARTMENT:

A. DEVELOP AND IMPLEMENT POLICIES ON THE FORMAT, USE, AND CHANGING OF COMPUTER SECURITY PASSWORDS.

B. MODIFY THE SECURITY SYSTEM TO TERMINATE USERS AFTER A SPECIFIC NUMBER OF INVALID ATTEMPTS TO ENTER THE SYSTEM.

C. MODIFY THE SECURITY SYSTEM TO MONITOR USER ACCESS TO SYSTEM RESOURCES.

D. DEVELOP AND IMPLEMENT POLICIES REGARDING THE CANCELLATION OF ACCESS PRIVILEGES UPON EMPLOYEE TERMINATION.

E. SEGREGATE INCOMPATIBLE DUTIES IN THE EDP FUNCTION.

F. RESTRUCTURE ACF2 ACCESS RULES TO ENSURE ACCESS IS ALLOWED ONLY TO THE EXTENT JOB DUTIES REQUIRE.

RESPONSE #37-12

(Unemployment Insurance Division)

Concur. The Unemployment Insurance Division (UID) has developed and implemented a written policy, "Identification Numbers and Passwords for Benefit, Tax, and SYSM Computer Files", 2.17a P & EB. It requires users to notify the UID Internal Security Officer within 3 working days when an employee leaves or no longer requires access to the computer system. As a backup measure the UID Internal Security Officer requests an employee terminations report from the Personnel and Training Bureau on a bi-monthly basis advising of any employee terminations. Any terminated employees showing on the password file are removed same day as the report is reviewed. The UID has also implemented a new policy, "Changing Passwords and Verification of Individuals Granted Access into the Unemployment Insurance Benefit and Tax Computer Files:, 2.17 P & EB. The UID Internal Security Officer sends out a verification letter to each major user requesting verification that each person is authorized to access the computer files. The verification is done at least every six months. Employee passwords are changed on an as needed basis and all passwords are changed at least once a year. We will continue to monitor employees' access to computer files.

(Centralized Service Division)

B. Concur. When CICS is covered by ACF2 security system, this recommendation will be implemented.

C. Concur. Same response as "B" above.

F. Partially concur. Access to files is needed by our operations staff. They will, however, be limited to read only access to source and object code libraries. Benefits Claims Examiner, Random Audit Claims Clerk, and Contributions Accounting Specialist will be required to submit test jobs in batch mode through our operations section. TSO access will be removed.

37-13. Error Resolution

(CFDA #17.225)

We reviewed procedures for resolving errors in the Unemployment Benefit system. This system produces error reports as a result of various edit procedures built into the system. We found there is no documentation of how various errors are to be resolved and who is responsible for the resolution of each type of error.

The users of the system should be provided with written procedures for resolving the various errors that may occur. These procedures should assign responsibility for error resolution to specific users to ensure the errors are resolved. A department official stated that time was not taken during the development of the system to put in writing the procedures to be used in error resolution.

RECOMMENDATION #37-13

WE RECOMMEND THE DEPARTMENT PREPARE WRITTEN DOCUMENTATION OF THE ERROR RESOLUTION PROCEDURES FOR THE UNEMPLOYMENT BENEFIT SYSTEM.

RESPONSE #37-13

Concurs. The Benefits Bureau within UID has a procedure that assigns error resolution to the individual who created the error. Those errors which cannot be identified as to the responsibility of a specific person are assigned to a clerk to investigate and make a correction, if appropriate. All errors on the error listings may not be legitimate errors, as in the case of duplicate transactions, one of which is expected to error out. The UID is in the process of writing procedures for error resolutions.

37-14. Check Endorsement and Deposits

(CFDA #17.225)

The department is not in compliance with section 17-6-105(6), MCA, regarding deposit of unemployment insurance payments. The law requires that deposits be made when coin and currency exceeds $100 or total collections exceed $500. We observed several checks in excess of $1,000 each that had not been endorsed and should have already been deposited in compliance with state law. The department is also not in compliance with state policy on endorsement of checks received in payment for unemployment insurance. The Montana Operations Manual requires that negotiable instruments be restrictively endorsed upon initial receipt. The department does not endorse a check until it has been reviewed and found to be for the proper amount. According to a department official, it may take up to three days before a check is ready for deposit.

The department official stated it is too time consuming to restrictively endorse each check upon receipt. The checks are attached to employer statements at that time and cannot be run through an endorsement machine. The official noted that checks are kept in a locked file cabinet each night.

State law requiring timely deposits was designed to minimize the risk of undeposited collections and cost of making deposits and maximizing investment income. The department should contact the Department of Administration for assistance in ensuring compliance with deposit requirements.

RECOMMENDATION #37-14

WE RECOMMEND THE DEPARTMENT:

A. COMPLY WITH STATE LAW REQUIRING TIMELY DEPOSITS.

B. COMPLY WITH STATE POLICY REQUIRING RESTRICTIVE ENDORSEMENT OF NEGOTIABLE INSTRUMENTS UPON INITIAL RECEIPT.

RESPONSE #37-14

Concurs. The Department concurs with A and partially concurs with B. The UID must meet federal standards for the timely deposit of checks it receives from employers. The federal standard is two days, and the Division consistently meets and exceeds that standard. In fact, during the two week period when quarterly reports are received by the Division (four times each year), two bank deposits are made daily. The vast majority of all checks are recorded, endorsed and deposited within 24 hours of receipts. In order to meet its federal standard for timely deposit, the Department cannot afford to singly endorse each check as it is received. Further, there are some checks received which cannot be processed for several days (these are the checks alluded to by the auditor) due to a variety of problems. For example, the Department often receives checks in amounts that must be split among various taxing authorities. The percentage of "problem" checks is very small - less than 1% - but often the time required to find the correct solution may require several days. The Department is not in a position to simply deposit these funds and seek a solution at a later time. It is in the best interest of both the employer and the State to first solve the problem, and then deposit the funds.

CURRENT STATUS

Recommendation A

As stated above, we have a federal standard that must be met, which states we are to deposit a minimum of 90% of collected taxes within three days of receipt. We deposit 99% within one day of receipt. We

have implemented two actions that should help to address the concerns of the legislative auditors. They are:

1. Starting April 1988, we will make two deposits every Friday when we have a significant amount of collections that would ordinarily be held over to be deposited on the next working day, Monday.

2. The Accounting Section Supervisor will monitor the number of checks that leave the normal processing procedures and analyze procedures that we possibly could implement that may help to alleviate the concerns addressed by the Legislative auditors and still meet our federal standard requirements.

Recommendation B

The Feds recommend we do not restrictively endorse checks upon receipt as per cost model studies which indicate that the risk is small and it is not cost effective. The risk is also lowered as the checks are not made out to an individual. Action #2 listed in Recommendation A of this section may assist in discovering some action that might help alleviate the auditors concern on this issue.

37-15. <u>Check Custody and Recordkeeping</u>

(CFDA #17.225)

Unemployment and workers' compensation checks are sometimes returned to the department as undeliverable. The checks are kept in locked drawers until a proper disposition is determined. A log of the checks in the drawer is also maintained. We noted that for each type of benefit, the same person is responsible for custody and recordkeeping of the checks. When these two duties are not segregated, there is increased risk of misappropriation of checks and altering of the records.

We performed an unannounced audit of the undelivered unemployment benefits check drawer. On the day of our audit there were 70 checks in the drawer. We found four checks in the file that had not been recorded on the corresponding check log. We also noted two checks recorded on the check log were not in the drawer and no disposition of the checks had been documented. A department employee said the discrepancies were due to human error in not recording all check receipts and dispositions.

Internal controls over these checks would be strengthened by having separate personnel keeping physical custody and recordkeeping of the checks.

Also, department supervisory personnel should periodically perform a comparison of the checks in the drawer to the log to ensure the two agree.

RECOMMENDATION #37-15

WE RECOMMEND THE DEPARTMENT STRENGTHEN CONTROLS OVER UNDELIVERED BENEFIT CHECKS.

RESPONSE #37-15

Concurs. The individual who retains physical custody of the undeliverable checks does not log them in. The log book is maintained in the same area for convenience in answering claimant inquiries which require access both to the log book and the checks. Supervisory personnel will perform a periodic comparison of the checks in the drawer and the log to ensure the two agree.

37-16. Supplies Inventory

(CFDA 17.225)

The department receives supplies such as envelopes and blank checks from vendors and department storage at records management. On two different occasions, we observed 34 boxes of postage paid envelopes valued at $21,250 in the unsecured stairwell near the department's loading dock. We also observed 24 cases containing 33,600 blank unemployment insurance benefit checks in the stairwell. Department personnel indicated that such shipments often remain in the stairwell overnight until employees responsible for the items take possession of them.

Adequate internal controls require the department to safeguard property against loss from unintentional and intentional errors or irregularities. In order to establish adequate control over supplies inventories, the department should ensure receiving personnel are on hand to sign for the items upon arrival and store them in a secure place. Department personnel stated that supplies are stored in the basement hallway, because the department lacks sufficient space in the building for supplies storage. Access to the hallway is not restricted.

RECOMMENDATION #37-16

WE RECOMMEND THE DEPARTMENT DEVELOP AND IMPLEMENT PROCEDURES TO ENSURE PHYSICAL SECURITY OF SUPPLIES INVENTORY.

RESPONSE #37-16

The postage-paid envelopes cannot be legally used for other than Department business; therefore, we feel that a material loss would not result from our current procedures. The blank checks are of no use without the signature. If a bank cashes the check without the authorized signature, the bank is liable for the loss, not the Department.

37-17. Records Retention

(CFDA #17.225, 17.250)

State agencies are required to maintain records in an accessible manner. We noted instances in which department personnel had difficulty obtaining files or support documentation we requested during our fieldwork. The instances included the following:

-- The check issued register from July 1984 through September 1984 for the Job Training Partnership Act (JTPA) program could not be located.

-- JTPA personnel were unable to find participant files for two transactions we selected for testing. Alternative supporting documentation for the transactions had to be requested from local Job Service offices.

-- During our interim audit work, Unemployment Insurance Division personnel were unable to find records of an audit the department's Audit Bureau had conducted. When we returned to complete our fieldwork, the records had been found. A department employee stated that records are occasionally misplaced.

The difficulty in retrieving information results in additional costs in staff time for both agency personnel and audit personnel. In the cases above, the information was eventually retrieved or an alternative audit trail was used to complete the audit procedure. The department should review its record retention policies and filing procedures and determine whether improvements could be made to prevent future problems such as noted above.

RECOMMENDATION #37-17

WE RECOMMEND THE DEPARTMENT REVIEW RECORD RETENTION POLICIES AND FILING PROCEDURES TO DETERMINE WHETHER IMPROVEMENTS CAN BE MADE.

RESPONSE #37-17

Concurs. The Unemployment Insurance Division has established a file system task force to review the organization and location of our files.

DEPARTMENT OF MILITARY AFFAIRS (86-30)

38-1. Recognition of Financial Activity

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Defense and Federal Emergency Management Agency.)

State policy defines when the department should record expenditures and revenues. Expenditures are recognized in the year materials or services are received. Revenues are accounted for when the amount is known or reasonably estimated, and can be collected timely enough to pay existing liabilities.

The following sections discuss instances where the department is not correctly recording revenues and expenditures in accordance with state accounting policy. Several of these instances are the result of the department using the "cash basis" of accounting to record certain activity. Under the "cash basis" of accounting, revenue and expenditures are recorded when cash is received and disbursed, respectively. The "cash basis" is contrary to state accounting policy. In addition, these errors result in unreliable financial or inadequate management information on which to base decisions concerning department operations.

The following table summarizes the dollar misstatements resulting from the accounting errors discussed in the following report sections. A majority of these misstatements affect our audit opinion on the financial schedules.

FISCAL YEAR 1984-85	Over(Under) Statement
Special Revenue Fund	
Revenue	$(464,882)
Revenue	21,493
Transfers Out	(464,882)
Expenditures	21,493

FISCAL YEAR 1985-86	Over(Under) Statement
General Fund	
Construction Advances	$ (22,840)
Other Advances	(26,000)
Expenditures	22,840
Expenditures	26,000
Special Revenue Fund	
Revenue	155,000
Revenue	(89,019)
Revenue	(109,524)
Prior Year Revenue Adjustment	19,466
Expenditures	155,000
Expenditures	(109,524)
Prior Year Expenditure Adjustment	19,466

The level and type of errors noted in the table above indicate that additional training in and review of state accounting policy may be necessary to help eliminate similar accounting errors in the future.

RECOMMENDATION #38-1

WE RECOMMEND THE DEPARTMENT PROVIDE PERSONNEL ADDITIONAL TRAINING IN STATE ACCOUNTING POLICY AND REVIEW OF THESE POLICIES.

RESPONSE #38-1

The agency has complied with the recommendation and Accounting Employees have received additional training.

38-2. Revenue and Expenditure Activity

Firefighting Funds

(CFDA #83.503)

The department received federal funds to reimburse the Department of State Lands for costs incurred in fighting forest fires during the summer of 1984. As of June 30, 1985, approximately 90 percent of the total allocation had been received from the federal government. The remaining 10 percent of cash was retained by the federal government until an audit of the fire expenditures was completed to ensure that the moneys advanced do not exceed the amount allowable.

As of June 30, 1985, the department had recorded only the transfers to the Department of State Lands and revenue equal to the federal reimbursement received (cash basis). No transfers or revenue were recorded for the remaining 10 percent because the federal reimbursement had not been received. Since the costs had been incurred, the department should have recorded a liability and transfer to State Lands by June 30, 1985. Also, the remaining federal reimbursement revenue should have been recognized. The audit was on-going at year-end and the report released by August 1985. Therefore revenue was both measurable and available to finance expenditures for the fiscal period.

This error resulted in revenues and transfers out being understated by $464,882 in fiscal year 1984-85 in the Special Revenue Fund.

Balancing Revenues and Expenditures

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 38-1.)

For federal reimbursement grants, the expenditure is recorded when the department incurs the cost. The department then requests reimbursement from the federal government to cover the federal share of expenses and records revenue. When this is done correctly, in accordance with state accounting policy, total revenues equal total expenditures.

At fiscal year-end 1984-85, the department recorded revenue due from the federal government based on an estimate of expenditures through June 30.

This estimate was greater than actual expenditures incurred by fiscal year-end. As a result, recorded revenue was greater than expenditures.

To make revenues equal expenditures, the department incorrectly recorded a payable and an expenditure. The department should have reduced the revenue and receivable due from the federal government. This error caused revenues and expenditures to be overstated by $21,493 for fiscal year 1984-85 in the Special Revenue Fund.

Counties

(CFDA #83.503, 83.512)

Montana counties participate in the federal Emergency Operating Center and Emergency Management Assistance programs. Counties pay all invoices and submit documentation of payment to the department which completes a letter-of-credit drawdown of the federal funds and reimburses the counties.

When a county expenditure is incurred, the department has a valid obligation to reimburse the county. Also, the federal funds required to reimburse the county are measurable and available. Therefore, the department should record and accrue the revenue and expenditure activity in the accounting period in which it occurs as required by state accounting policy. Instead, the department records revenues and expenditures when reimbursements are made to the counties. The procedure represents a "cash basis" of accounting. As a result, May and June activity is recorded in August of the following fiscal year. Due to the volume of transactions involved, it was not practical to determine the total dollar misstatement resulting from the incorrect procedure. However, our audit work determined the misstatement in the Special Revenue Fund to be at least $109,524 during fiscal year 1985-86. This misstatement affects program expenditures reported on the department's financial schedules. However total revenue is not materially misstated because of additional offsetting errors discussed in the following report section.

RECOMMENDATION #38-2

WE RECOMMEND THE DEPARTMENT RECORD ALL REVENUE AND EXPENDITURE ACTIVITY IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #38-2

The agency has complied with the recommendation and is recording revenue and expenditure according to SBAS policy.

38-3. Construction Work-in-Progress

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 38-1.)

The department's procedure for recording Construction Work-in-Progress is not in compliance with state accounting policy. This problem was noted in each of our previous two audits.

The department records as expenditures the total amount of funds transferred to the Department of Administration, Architecture and Engineering (A&E) Division, for construction projects, whether or not the funds have been used on the project. According to state accounting policy, funds transferred to A&E should be recorded as construction advances. At fiscal year-end, the department is required to record project expenditures based upon project status reports received from A&E and reduce the construction advance accordingly. In addition, the amount expended on the construction project should be capitalized as Construction Work-in-Progress.

In fiscal year 1985-86, $25,000 was transferred to A&E to establish a state veterans' cemetery near Fort Harrison. At fiscal year-end, only $2,160 had been expended on the project. Since the department did not record the transfer of funds to A&E as a construction advance, fiscal year 1985-86 expenditures in the General Fund are overstated by $22,840. Also, Construction Work-in-Progress was not recorded in the General Fixed Assets Account Group for actual amounts spent by A&E.

House Bill 21, enacted by the June 1986 Special Session of the Legislature, granted Military Affairs an appropriation in the Federal Special Revenue Fund which included $155,000 for design fees for armories at

RECOMMENDATION #38-5

WE RECOMMEND THE DEPARTMENT PERFORM A TIMELY REVIEW OF SBAS REPORTS TO ENSURE THAT FINANCIAL ACTIVITY IS RECORDED IN THE PROPER ACCOUNTING PERIOD.

RESPONSE #38-5

The agency has complied with the recommendation.

38-6. Centralized Services

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 38-1.)

In response to our previous audit, the department proposed combining its three divisions' accounting operations by creating a Centralized Services Function. The status of centralization efforts is discussed in the following paragraphs.

Prior to July 1, 1983, the department had two separate divisions, Disaster and Emergency Services (DES) and Adjutant General (AG). Each division had its own fiscal officers. Financial records were recorded and stored at each division.

Effective July 1, 1983, a Centralized Services (CS) function was created to handle AG affairs. CS also aided Veterans' Affairs (VA), which was transferred from the Department of Social and Rehabilitation Services. In May 1984, the department hired a management consultant. The consultant suggested the centralization of accounting functions, which was approved in the 1985 Legislative Session.

This reorganization plan has been partially implemented. Effective July 1, 1985, Centralized Services handles all accounting except payroll for AG and VA. The final payroll summary is approved by the CS administrator. Also, the state accounting records were consolidated into one agency number instead of three.

However, we noted that CS and DES accounting functions remain substantially decentralized. Specific examples include:

disaster relief, with a corresponding reduction of the advance and liability. Using this procedure will properly reflect expenditure and revenue activity and also increase management's control over the status of disaster relief moneys.

In the same manner, the department should record the distribution of all state disaster relief funds to public entities by recording an advance. The advance amount is reduced as expenditures are incurred and recorded. The incorrect accounting procedures caused General Fund expenditures to be overstated in fiscal year 1985-86 by $26,000. In addition, prior year expenditure and revenue adjustments are overstated in the Special Revenue Fund in fiscal year 1985-86 by $19,466.

RECOMMENDATION #38-4

WE RECOMMEND THE DEPARTMENT RECORD ADVANCES OF DISASTER RELIEF FUNDS IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #38-4

The agency has complied with recommendation and is recording advances according to SBAS policy.

38-5. Revenue Recognition

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 38-1.)

The department receives federal funds monthly based on contractual agreements with the federal government. We noted three instances in which May 1986 contract revenue was received during fiscal year-end 1985-86 but inadvertently recorded as fiscal year 1986-87 activity. The department failed to mark the three documents as fiscal year 1985-86 activity. The errors caused fiscal year 1985-86 revenue to be understated by $89,019. The department detected the errors in August 1986, after the deadline to correct financial activity on the fiscal year 1985-86 accounting records. A more timely comparison of accounting records to document logs would have detected the errors prior to fiscal year closing.

RECOMMENDATION #38-5

WE RECOMMEND THE DEPARTMENT PERFORM A TIMELY REVIEW OF SBAS REPORTS TO ENSURE THAT FINANCIAL ACTIVITY IS RECORDED IN THE PROPER ACCOUNTING PERIOD.

RESPONSE #38-5

The agency has complied with the recommendation.

38-6. Centralized Services

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 38-1.)

In response to our previous audit, the department proposed combining its three divisions' accounting operations by creating a Centralized Services Function. The status of centralization efforts is discussed in the following paragraphs.

Prior to July 1, 1983, the department had two separate divisions, Disaster and Emergency Services (DES) and Adjutant General (AG). Each division had its own fiscal officers. Financial records were recorded and stored at each division.

Effective July 1, 1983, a Centralized Services (CS) function was created to handle AG affairs. CS also aided Veterans' Affairs (VA), which was transferred from the Department of Social and Rehabilitation Services. In May 1984, the department hired a management consultant. The consultant suggested the centralization of accounting functions, which was approved in the 1985 Legislative Session.

This reorganization plan has been partially implemented. Effective July 1, 1985, Centralized Services handles all accounting except payroll for AG and VA. The final payroll summary is approved by the CS administrator. Also, the state accounting records were consolidated into one agency number instead of three.

However, we noted that CS and DES accounting functions remain substantially decentralized. Specific examples include:

Payroll - The payroll technician and DES accountant time cards are signed by DES officials rather than the CS administrator.

Documents - The CS administrator reviews and approves Adjutant General and Veterans' Affairs documents. DES officials review and approve their own documents. Also, DES and CS have separate document numbering systems. For example, collection reports start at one for CS and two hundred for DES.

Currently the DES administrator is the state director who is responsible for the funds received from the Federal Emergency Management Agency (FEMA). As state director, he assumes all management oversight at the state level toward all funds passed to the state. In order to prevent any potential loss of these FEMA funds through centralization, the department should request that the Adjutant General be designated the state director. This would ensure that any personnel within the department would still be eligible for federal matching funds since they would all be under his management oversight.

Decentralization causes inefficiencies in the department's management control system. In addition, the CS function is not operating as management intends. The CS administrator cannot be responsible or accountable for the payroll technician and DES accountant when these individuals are directly supervised by DES administrative staff. Also, the lack of coordination and communication between CS and DES results in a variety of accounting errors in each division, as noted in the previous section regarding recognition of financial activity.

The department's continued efforts to centralize accounting functions should lead to stronger management control, decreased likelihood of undetected errors or irregularities in the department accounting records, and more consistent, useful management information.

RECOMMENDATION #38-6

WE RECOMMEND THE DEPARTMENT:

A. REQUEST THAT THE ADJUTANT GENERAL BE DESIGNATED AS THE STATE DIRECTOR FOR MANAGEMENT OVERSIGHT OF FEDERAL EMERGENCY MANAGEMENT AGENCY FUNDING.

B. COMPLETE THE CENTRALIZATION OF ACCOUNTING SERVICES.

RESPONSE #38-6

The agency has not complied with the recommendation at the request of FEMA.

38-7. Duplicate Records

(This issue could affect all of DES Division's federal assistance. All federal assistance expended by the division during the audit period was received from the Federal Emergency Management Agency.)

During our audit period, the DES federal activity was recorded on the Statewide Budgeting and Accounting System (SBAS) and duplicated on manual records. Agency personnel stated it is necessary to have this manual subsystem so the agency can easily access and gather data by state, federal, or calendar year. The state's accounting records could be utilized for this purpose by keeping information by quarter. The department could roll up the quarters for state, federal, or calendar year. Quarterly summaries could be kept on the department's subsystem, if necessary. If the subsystem is used to prepare federal reports the subsystem must be reconciled to the state's records. Federal regulations require federal reports be supported by an entity's primary accounting system.

RECOMMENDATION #38-7

WE RECOMMEND THE DEPARTMENT ELIMINATE DUPLICATION OF ACCOUNTING RECORDS.

RESPONSE #38-7

The agency has complied with the recommendation.

38-8. Subrecipient Audit Reports

(CFDA #83.503, 83.512)

The Disaster and Emergency Services Division (DES) distributes federal funds to local governments. The division has a system to perform desk reviews on cost reports and supporting documentation submitted by the local governments but does not have a procedure to obtain and act on subrecipient audit reports.

The federal Office of Management and Budget's (OMB) Circular A-128 requires state governments which receive federal financial assistance and provide $25,000 or more of it in a fiscal year to a single subrecipient (which the department did during the audit period) to have a control system for monitoring subrecipients and obtaining and acting on subrecipient audit reports. This control system is necessary to ensure the subrecipient spent federal assistance funds in accordance with federal laws and regulations. Review of audit reports could disclose internal control weaknesses, questioned costs, or other problems at the subrecipient level.

RECOMMENDATION #38-8

WE RECOMMEND THE DEPARTMENT ESTABLISH A SYSTEM TO OBTAIN AND ACT UPON SUBRECIPIENT AUDIT REPORTS AS REQUIRED BY OMB CIRCULAR A-128.

RESPONSE #38-8

The agency has complied with the recommendation.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES (SRS) (87-16)

39-1. Contingent Revolving Fund

(CFDA #13.780)

We reviewed contingent revolving fund (CRF) internal controls at the department and at four counties. Based on our review, we determined there are internal control weaknesses in the operations of the contingent revolving fund. The department uses the CRF predominantly for general assistance (GA) and the Aid to Families with Dependent Children (AFDC) Program payments. The department also uses the fund for administrative purposes where moneys are needed immediately, such as to pay unforeseen travel expenses. In fiscal years 1985-86 and 1986-87, $23 million in checks were issued by the 56 counties and 10 district offices, and by the department's central office in Helena. Each county and district office has its own supply of blank checks which can be written on the account. In each of the last two audits of the department and during the current audit, we observed internal control

weaknesses which could allow persons working at the department's offices to write unauthorized CRF checks.

For example, during this audit, we observed at one state assumed county:

1. An eligibility technician (ET) determines GA eligibility and authorizes benefit payments. No one reviews the eligibility determination for propriety prior to making a CRF payment. The ET could authorize benefit payments to fictitious or ineligible individuals.

2. A clerk establishes a payment list which generates CRF checks for recipients. No review is performed by a supervisor to ensure that only the checks originally authorized by the ET are prepared. The clerk could prepare fictitious or erroneous payments.

At another county, we observed that during work hours blank checks are stored in an open safe located in a hallway which is accessible to office employees and the general public. This situation, which we also noted in our last audit, leaves the blank checks susceptible to theft.

A list of checks processed is prepared by SRS and distributed to all offices that issue CRF checks. The department distributes the list so that office personnel can compare the list of checks processed with their records to ensure that only properly authorized checks were processed. Department officials consider this procedure to be an important internal control over the CRF. Only one of the four counties that we visited used the list of checks processed as a CRF control. Personnel at the other three counties either did not understand how to use the processed check list, or they considered the procedure unnecessary.

RECOMMENDATION #39-1

WE RECOMMEND THE DEPARTMENT:

A. ENSURE COUNTY RECIPIENT FILES AND PAYMENT LISTS ARE REVIEWED AND APPROVED PRIOR TO MAKING PAYMENT.

B. IMPROVE PHYSICAL CONTROLS OVER BLANK CHECKS.

C. ENSURE THE LIST OF CHECKS PROCESSED IS COMPARED WITH CHECK ISSUANCE RECORDS.

RESPONSE #39-1

A. Concur. A procedure to randomly review eligibility by a second party prior to issuance of benefits was described in recommendation #1B (of audit report 87-16). Each county office will develop and present to the state office for approval a procedure that requires the review and comparison of "approved cases" with payment lists.

This procedure will be operational by July 1, 1988.

Current Status: The procedure has been implemented for AFDC and Food Stamps and will be expanded to include GA.

Estimated Completion: September 30, 1988. Workload requirements have delayed implementation.

B. Concur. Counties will be reminded of the need to safeguard blank checks. The county that was identified as using improper storage procedures will be reviewed and proper procedures will be followed.

Implementation will occur during March 1988.

Current Status: The identified county was referred to the Area Supervisor for review. No further action.

Estimated Completion: September 30, 1988

C. Concur. Following issuance of benefits, an ET Supervisor or County Director will be required to initial the list of processed checks certifying that the listed payments were appropriate.

This procedure will be implemented by May 1, 1988.

Current Status: Procedure under discussion by Area Supervisors. No final action.

Estimated Completion: September 30, 1988

39-2. Grant Close-outs

(CFDA #13.789, 81.042)

When the Montana Department of Community Affairs (DCA) merged into the Department of Commerce in 1981, SRS assumed administrative responsibility for certain grants. The responsibility included monitoring subrecipient final reports and collecting unused subrecipient grant funds. Agency personnel estimated that the state expended and could recover from the federal government $463,169 for indirect costs on these grants. The personnel believed that

the $463,169 could be transferred to the General Fund when the grants are closed. SRS already has a cash balance of $420,798 in the Special Revenue Fund connected with these grants.

State law requires grantee agencies to negotiate indirect cost rates and endeavor, to the fullest extent possible, to recover indirect costs of federal assistance programs. In 1981, SRS renegotiated the indirect cost rate for these grants with the U.S. Department of Labor. The new rate covered indirect costs actually incurred. SRS has not completed the recovery process by closing the grants and depositing the money in the General Fund.

In October 1983, SRS management directed its fiscal bureau staff to contact federal program auditors and submit a written claim for indirect cost moneys. We noted no documentation of action since that date. A department official said some phone contacts were made several years ago, but federal officials have not responded. Another official said the grants have not been closed because the department was awaiting several audits from subgrantees to determine actual costs. We were later informed that all the subgrantees have been audited. The last required audit was completed in 1985.

RECOMMENDATION #39-2

WE RECOMMEND THE DEPARTMENT CLOSE THE DEPARTMENT OF COMMUNITY AFFAIRS GRANTS AND DEPOSIT THE INDIRECT COST REIMBURSEMENTS IN THE GENERAL FUND.

RESPONSE #39-2

Concur. The grant closure process will be completed by June 30, 1988.

Estimated Completion: It is now estimated that the process will be completed September 30, 1988.

39-3. Statewide Indirect Costs

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the following federal agencies: Department of Agriculture, Department of Health and Human Services, Department of Housing and Urban Development, Department of Labor, Department of Energy, and Department of Education.)

The department has not recorded all statewide cost allocation plan (SWCAP) cost reimbursements in the General Fund as required by state policy. State accounting policy requires that all agencies must determine the amount of recoveries that are due to SWCAP and move that amount into the General Fund. The purpose of the state policy is to ensure the General Fund is reimbursed for its share of indirect costs which are allocable to federal programs.

In fiscal years 1985-86 and 1986-87, the General Fund at the department should have received $108,356 and $24,911, respectively, more than the General Fund received. A department official said there are two situations in which the department does not transfer SWCAP reimbursements to the General Fund. In one situation, the department spent more General Fund moneys for a federal program than was necessary to meet federal matching requirements. In the other situation, the department's administrative costs for a program exceed the level of administrative costs approved for reimbursement by the federal government. In both cases the official said, the General Fund would be required to pay for the program cost, so why not leave the SWCAP reimbursement in the Special Revenue Fund and spend it there, rather than spending it out of the General Fund.

By spending the SWCAP reimbursement out of the Special Revenue Fund to offset General Fund expenditures the department is misrepresenting the actual General Fund support for federal programs on the state's financial records. The department is overstating expenditures in the Special Revenue Fund and understating expenditures in the General Fund. At the end of fiscal years 1985-86 and 1986-87, the department had sufficient appropriation authority to pay its program expenditures from the General Fund which would have allowed the department to transfer SWCAP reimbursements as required by state policy.

<u>RECOMMENDATION #39-3</u>

WE RECOMMEND THE DEPARTMENT TRANSFER $133,267 IN STATEWIDE COST ALLOCATION PLAN REIMBURSEMENTS TO THE GENERAL FUND AS REQUIRED BY STATE POLICY.

RESPONSE #39-3

Partially concur. The nonblock funds available will be transferred to the General Fund prior to June 30, 1988.

The Department believes it has complied with state policy (MM's 2-85-1 and 2-87-3) and statute (Section 17-3-111, MCA) --- "the agency shall endeavor, to the fullest extent possible, to recover indirect costs from federal assistance programs". When the Legislature appropriates federal funds to the Department, including block grant funds and capped federal grants, to be used for direct administrative costs and client benefits, those sources of funds are not available for indirect cost recovery. Therefore, the Department has transferred recoverable SWCAP costs to the General Fund for fiscal years 1985-86 and 1986-87.

Current Status: The funds available have been transferred.

39-4. Error Rates for Federal Programs

(CFDA #10.551, 13.780, 13.714)

The federal government establishes a maximum allowable error rate for the Food Stamp Program, the Aid to Families with Dependent Children (AFDC) Program, and the Medicaid Program. Based on projections made by the department's Program Integrity Bureau, the Food Stamp Program and the AFDC Program error rates exceeded the maximum allowable error rates established by the federal government. Federal sanctions amounting to nearly $3.7 million could be levied on the state as a result of the errors.

A department official said that 42 of 50 states exceeded the 5 percent food stamp error rate, and legislation has been introduced in the U.S. Senate which places a moratorium on sanctions until September 1988. According to the official, the results of a federal government study of the food stamp quality control process will be available at that date to evaluate concerns with how sanctions are determined.

The following chart summarizes the results of the Program Integrity Bureau's comparison of the actual error rate to the maximum allowable error rate (target rate). It also estimates the sanction amounts that the General Fund might be required to pay. The Medicaid error rate is 1.2 percent, which is less than the 3 percent rate established by the federal government and is excluded from the schedule. Department officials obtained the estimated sanction amounts, except for the federal fiscal year 1986 AFDC amount, from

the federal government. The 1986 AFDC sanction amount was calculated by SRS personnel using a formula specified in federal regulations.

AFDC PROGRAM

Federal Fiscal Year	Actual Error Rate	Target Rate	Difference	Estimated Sanction Amounts
84	6.9%	3%	3.9%	$ 682,186
85	7.5%	3%	4.5%	1,444,070
86	5.1%	3%	2.1%	450,377
87*	5%	3%	2%	NA
				$2,576,633

FOOD STAMP PROGRAM

Federal Fiscal Year	Actual Error Rate	Target Rate	Difference	Estimated Sanction Amounts
84	8.7%	7%	1.7%	$ 90,933
85	7.4%	5%	2.4%	385,539
86	8.3%	5%	3.3%	635,940
87*	5.6%	5%	.6%	NA
				$1,112,412

* The Federal Fiscal Year 87 percentages are calculated for the period October 1986 to April 1987 because the department has not yet completed calculating its projected error rate through September 1987.

NA - Not Available

Data was provided by the Department of Social and Rehabilitation Services.

The department began implementing corrective action plans for both the AFDC and Food Stamp Programs. The department expects the corrective action plans will reduce the error rates in the two programs.

Since the department is in the process of implementing corrective action plans to reduce the error rates in the AFDC and Food Stamp Programs we do not make a recommendation on this issue. This report section is intended for disclosure purposes only.

RESPONSE #39-4

Current Status: The results of the corrective action plan implemented will be reviewed during 1988-89 fiscal year.

39-5. Financial Status Reports

(CFDA #84.126, 13.780)

The department did not accurately prepare two federal reports for its Vocational Rehabilitation grant and two reports for the Aid to Families with Dependent Children (AFDC) grant. Federal regulations require that financial reports submitted to the federal government be accurate and complete. We noted the September 1986 vocational rehabilitation financial status report understated indirect costs amounting to $12,577. The June 1986 vocational rehabilitation report also understated indirect costs by $127. The March 1987 and June 1987 AFDC financial status reports misstated benefit costs. The combined effect of the errors on the AFDC reports was a net understatement of costs amounting to $79,640.

State law requires state agencies to recover indirect cost reimbursement to the fullest extent possible. If we had not found these errors it could have cost the state General Fund $92,344. Accounting personnel indicated the errors were caused by oversights and they would be corrected on subsequent federal financial status reports.

RECOMMENDATION #39-5

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH PROCEDURES TO ENSURE FEDERAL REPORTS ARE COMPLETE AND ACCURATE.

B. SEEK REIMBURSEMENT FOR THE $92,344 OF UNREPORTED COSTS NOTED DURING THE AUDIT.

RESPONSE #39-5

A. Concur. The Department has established internal control procedures to ensure the accuracy of the AFDC report.

Current Status: Completed

B. Concur. Reimbursement has been received.

Current Status: Completed

39-6. Subrecipient Audits - Tribal Governments

(CFDA #10.550)

The department has no procedure for obtaining and acting on audit reports of tribal governments performed under the provisions of Office of Management and Budget (OMB) Circular A-128. This circular establishes federal audit requirements for state and local governmental units which receive federal funds. Tribal governments receive federal food commodity distributions from the department. The department, as the recipient of federal assistance (i.e., food commodities), is required by federal regulations to have a system for monitoring subrecipients such as tribal governments. One method the department can use to monitor tribal governments is to require the tribe provide the department with an audit report performed in accordance with the provisions of OMB Circular A-128. Tribal governments are required to obtain an audit in accordance with OMB Circular A-128 and if the department received and reviewed copies of the audit reports, it could detect instances where the tribes may not be complying with federal regulations and disclose internal control weaknesses or questioned costs.

RECOMMENDATION #39-6

WE RECOMMEND THE DEPARTMENT OBTAIN AND REVIEW AUDIT REPORTS OF TRIBAL GOVERNMENTS AS REQUIRED BY OMB CIRCULAR A-128.

RESPONSE #39-6

Concur. Proposed federal regulations would require that such a recommendation be implemented.

Upon receipt of specific instructions from the USDA, we will implement the recommendation.

Current Status: This requirement will be made part of the FFY89 Contract.

Estimated Completion: October 1, 1988

39-7. Schedule of Federal Assistance

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

The schedule of federal assistance expenditures for fiscal year 1986-87 prepared by the department was not accurate. Federal regulations require the state of Montana to provide the federal cognizant audit agency with a schedule of federal assistance audited in accordance with the provisions of the Single Audit Act of 1984. Since the grant expenditure information contained in the department's schedule of federal assistance is used in the state's audit report to the federal government, it is important that the schedule be accurately prepared.

Our tests of grant expenditures on the department's schedule of federal assistance identified more than 27 percent of the grants itemized on the schedule that were not accurately reported. The errors ranged from $1,850 to $1 million. Eleven of twelve grants which were inaccurately reported understated federal grant expenditures. We found similar concerns regarding the fiscal year 1985-86 schedule of federal assistance prepared by the department.

Department personnel subsequently adjusted the schedule of federal assistance for the errors identified during the audit so that amounts reported by the state would be fairly presented.

RECOMMENDATION #39-7

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE THE SCHEDULE OF FEDERAL ASSISTANCE IS ACCURATELY PREPARED.

RESPONSE #39-7

Concur. Procedures have been established to ensure accurate preparation of the schedule.

Current Status: Completed

39-8. Medicaid Waiver Report

(CFDA #13.714)

The department's annual report to the federal government on the Home and Community-Based Services Medicaid Waiver Program did not tie or reconcile to the department's accounting records. Federal regulations require the department to file an annual report with the Health Care Financing Administration (HCFA) demonstrating the cost effectiveness of the waiver program. Federal regulations also require that the report be supported by the department's accounting records. The department spent $1.1 million in fiscal year 1985-86 and $1.8 million in fiscal year 1986-87 on the waiver program.

The purpose of the medicaid waiver program is to allow people to live at home and receive necessary care as long as the cost is lower than the cost of institutional care. The waiver program is designed to offer individuals a choice of home service rather than services in skilled nursing facilities, intermediate care facilities, or intermediate care facilities for the mentally retarded. The program must be cost effective in order for the state to keep the waiver program.

We reviewed the annual report submitted to HCFA for the fiscal year ended June 30, 1986. We noted expenditures reported did not agree with expenditures reported on the department's accounting records. Department officials, at the time of our audit, could not explain why the expenditure amounts were not in agreement. In February 1988 department officials indicated the annual report had been reconciled to the accounting records.

RECOMMENDATION #39-8

WE RECOMMEND THE DEPARTMENT:

A. ENSURE ITS MEDICAID REPORTS ARE RECONCILED TO THE ACCOUNTING RECORDS.

B. CONTINUE TO RECONCILE EXPENDITURES FROM THE ANNUAL REPORTS SUBMITTED TO HCFA TO EXPENDITURES RECORDED ON THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM.

RESPONSE #39-8

A. Concur. The HCFA 372 report (Home and Community-Based Services Waiver Program) was reconciled to the Department's accounting records during the course of the audit. A special computer program was written to obtain the specific data for the HCFA 372 report to reconcile it to SBAS.

Current Status: Completed

B. Concur. The Department will continue to reconcile the 372 report to SBAS.

Current Status: No action required at this time, however the Department will reconcile the reports to SBAS prior to submission to HCFA.

Estimated Completion: Completed

39-9. Medicaid Overpayment

(CFDA #13.714)

In 1984, the Health Care Financing Administration (HCFA) changed the method of calculating allowable Medicaid reimbursement for outpatient clinical diagnostic laboratory tests. To implement these changes, the department modified its Medicaid Management Information System (MMIS). In February 1986, the department's Program Integrity Bureau, while performing routine testing of the system, found outpatient laboratory service claims that did not comply with HCFA reimbursement regulations. Department management investigated the improperly paid claims and determined that providers did not bill properly and consequently, MMIS did not process outpatient laboratory claims in accordance with HCFA regulations. As a result, the department overpaid providers for outpatient laboratory services between March 1, 1985 and October 1, 1986. Department management estimated overpayments at $500,000. The $500,000 of estimated overpayments is a questioned cost and may require reimbursement to the federal government.

Department personnel said that the system edits modified by an independent contractor were not properly reviewed or tested by the department prior to approval. Department personnel said the department has corrected the system problem for new claims and has initiated procedures to recover overpayments. Since the department indicated it has initiated

corrective action, this report section is for disclosure purposes only, and we do not make a recommendation.

RESPONSE #39-9

Current Status: The actual overpayments were determined and have been recovered.

39-10. Medicaid Claims Processing Controls

(CFDA #13.714)

The Medicaid claims processing is performed by a private contractor. In fiscal year 1986-87, the contractor processed more than $143 million in SRS Medicaid claims through its electronic data processing (EDP) system. Nearly all federal and state Medicaid reports prepared by the department are based on information processed through the contractor's EDP system.

The department's contract does not require an application review or service center review of the Medicaid claims processing system. Such reviews would provide assurance that effective internal controls are functioning over the data processing system and facility. The department's Program Integrity Bureau does perform some claims processing oversight through its Claims Processing Assessment System. However, no service center review or electronic data processing application review has been performed.

The department required a previous contractor to contract for an application review. The department should establish a similar provision in its next claims processing contract.

A department official agreed that SRS should require the contractor to provide a service center review of the electronic data processing applications. The official said the requirement for such a review is included in the new five-year contract and there are no additional charges for the review.

RECOMMENDATION #39-10

WE RECOMMEND THE DEPARTMENT REQUIRE THE MEDICAID CLAIMS PROCESSING CONTRACTOR OBTAIN A FORMAL, INDEPENDENT SERVICE CENTER REVIEW OR ELECTRONIC DATA PROCESSING

APPLICATION REVIEW ON THE DEPARTMENT'S MEDICAID CLAIMS PROCESSING SYSTEM.

RESPONSE #39-10

Concur. The Department's most recent contract with the Medicaid fiscal agent requires an independent EDP Application Review be performed every 12 months in accordance with Generally Accepted Auditing Standards.

Current Status: The MMIS fiscal agent contract beginning March 1, 1988 and continuing through June 30, 1993 requires an annual review be conducted of the contractor's claim processing system. The review must follow established guidelines for audits of independent service centers. The first review is scheduled for July 1988; subsequent reviews will be conducted annually thereafter.

Estimated Completion: The fiscal agent is in the process of contracting for these reviews. The contract will be signed in September 1988.

39-11. Monitoring Home Health Services

(CFDA #13.714)

In the audit of the Medicaid Home Health Services program presented to the Legislative Audit Committee in January 1986, we recommended the department:

1. Include in future planning an established system for utilization review of home health services; and

2. Reevaluate the home health program control limitation for visits, and adjust it as necessary.

We were concerned the Home Health Services program was not being adequately reviewed. In 1986 we found there was only minimal review by the department of the use of home health services. A department staff member reviewed those cases where expenditures for services provided exceeded $400 a month or equipment purchases exceeded $75. Since only a small number of cases fell within either of these limits, there was independent review of only a very few home health care cases.

An adequate utilization review process would provide assurance the number of home health services is appropriate and document that services are actually being provided. Without such reviews, the department has no means

to compare program results with what is expected or determine if program controls are reasonable and effective.

One type of utilization review is to monitor the number of visits a person receives each year. In our audit in 1986 we found there was a limit of 200 visits per year per recipient. When a person reached the limit the department was notified via a computer printout. Until the limit was reached, the department did not know how many visits each person received. This limit and process is still in effect.

Creation of a computer program detailing the number of visits a person receives over a level less than 200 would allow the department to monitor the program and more effectively control the number of visits per recipient. The 200 visit limit could still be a maximum, but the additional management information would allow the department to more closely control and monitor the program.

A department official said inflation of costs since the prior audit has resulted in more recipients reaching the $400 threshold and an expanded review of the home health caseload. The official said the department recognizes the need for analysis of home health services, limits, trends, and administrative procedures, and the department has included such a review in future operating plans. The department official also said that due to limited resources, and since the Medicaid Home Health Services program is significantly smaller than other medicaid programs, it is difficult to justify significant time and resources for monitoring Home Health Services.

RECOMMENDATION #39-11

WE RECOMMEND THE DEPARTMENT ESTABLISH A SYSTEM FOR UTILIZATION REVIEW OF HOME HEALTH SERVICES WHICH INCLUDES MONITORING OF THE NUMBER OF VISITS.

RESPONSE #39-11

Concur. Utilization review resources, however, are very limited and must be allocated among a wide variety of programs, many of which have larger dollar volume and greater potential for return. The Department will request additional resources from the Legislature to maintain more intensive utilization reviews in the home health program.
We are currently implementing a report of those persons who exceed 50 visits. After identifying these persons, referral will be made to the

Program Integrity Bureau, Waiver teams or Medicaid UR for further review.

Current Status: Completed. The Department has implemented a system of utilization control for home health services which includes the following provisions:

1) All services which exceed $400 per month must be prior authorized by the department UR Coordinator or designee.

2) No recipient may receive more than 200 visits per year in any combination of home health agency services.

3) Any recipient who exceeds 50 visits per state fiscal year is reported to the Primary Care Section Program staff for review. Based on that review a case is: a) referred to UR Coordinator for review, b) referred to Program Integrity Bureau for investigation, or c) no action recommended.

39-12. Accuracy of Patient Record Numbers

(CFDA #13.714)

In our audit of the Medicaid Long-term Care program we examined the patient identification (ID) numbers on the Montana Income Maintenance System (MIMS). We compared the ID numbers on the patient assessment system to those on MIMS. Our computer match showed approximately 13 percent of the patient ID numbers on the patient assessment system were not on MIMS. We estimated as many as 101 of the people identified in our match were not identified as Medicaid eligible in January 1986. If these people were, in actuality, not Medicaid eligible, long-term care facilities were recording inappropriate management minutes. As a result, the department could be over compensating long-term care facilities. The department uses management minutes to ensure facilities are properly compensated for necessary expenses. Management minutes are a calculation of nursing time required to provide services and care for residents in a long-term care setting.

The computer match we performed compared the patient assessment system and MIMS. The computer program created a page for each facility listing the unmatched numbers. The pages could be separated and sent to the appropriate facility when other information is sent. The long-term care facilities could use the information to verify the patient ID numbers in their records are accurate.

When we performed the match we allowed time for ID numbers to get on the two systems and the use of temporary numbers (IDs used until a Medicaid ID number is issued) by using tapes created in different months. The MIMS tape we used was a month older than the patient assessment tape; a longer span can be used if it is deemed necessary.

A department official expressed concern that correcting the system errors would require a great amount of work, and questions remain as to the effectiveness of the matching procedure. We believe the first run would be the longest since it would have the most unmatched numbers. Long-term care facility populations are reasonably stable so subsequent runs would only identify those few patients who had entered the facility since the last computer match and did not have a Medicaid number. Once the MIMS and patient assessment systems are brought into agreement, then substantially less effort will be required to keep the systems in agreement. The computer match would cost the department less than $50 for computer time each time it is run. Unmatched IDs could be sent to the individual facilities because they know which patient abstract forms are not correct and can correct them. The department's staff time should be minimal.

RECOMMENDATION #39-12

WE RECOMMEND THE DEPARTMENT:

A. RUN A PERIODIC COMPUTER MATCH BETWEEN MIMS AND THE PATIENT ASSESSMENT SYSTEM.

B. REQUIRE LONG-TERM CARE FACILITIES TO CORRECT ANY INCORRECT PATIENT IDENTIFICATION NUMBERS AS APPROPRIATE ON THE PATIENT ABSTRACT FORMS.

RESPONSE #39-12

A. Concur. The Department developed a matching report which included the information considered necessary to perform the reconciliation. That report proved unwieldy and will be discontinued. Recent inquiries to the Office of the Legislative Auditor have indicated the Department can obtain the auditor's programming in March 1988. Upon receiving the programming, we will reconcile the differences between the MIMS and the patient assessment. If upon analysis the discrepancy appears to be material, we will take steps to correct the pertinent system.

Current Status: OLA staff has been contacted and they will provide access to their program (written in Culprit) on the mainframe. SRS will prepare an internal data processing request and will then prioritize this project amongst the other DP requests.

Estimated Completion: A firm completion date has not yet been established however we are hopeful that the project can be completed by September 30, 1988. Completion may be delayed due to the DP staff's heavy involvement in TEAMS and other federally mandated changes requiring DP programming.

B. Concur. When incorrect identification numbers become known, the information will be forwarded to the appropriate provider.

Current Status: When incorrect ID numbers are known, the information is currently forwarded to the appropriate provider for correction.
Estimated Completion: This procedure is in place, however, additional incorrect ID numbers may be discovered once the matching report has been run and analyzed. Any additional incorrect ID numbers will be investigated and resolved.

39-13. Long-term Care Facility Reimbursement System

(CFDA #13.714)

In our prior audit of the Medicaid Long-term Care program, we reviewed the formula used to determine Medicaid reimbursement for long-term care facilities. The formula is made up of several components which determine how much compensation the long-term care facilities should receive per patient, per day. The formula components include, but are not limited to, an area wage adjustment, a patient day cost parameter, a fixed cost parameter, and a patient care adjustment. The information derived from the components in the formula provide a basis for the department to expend over $65 million (fiscal year 1986-87) on long-term care facilities which provide services to Medicaid patients.

During our review, we were not able to analyze the reasonableness or initial accuracy of several formula components because the Medicaid Bureau did not have any formal documentation of how the components were created and/or initially derived. For example, the patient day and fixed cost parameters constitute a significant portion of the total reimbursement rate a long-term care facility receives, yet department personnel could provide neither a satisfactory verbal nor written explanation of how the parameters were created or calculated.

The undocumented components preclude the department and outside sources from reviewing the reimbursement formula for reasonableness and accuracy. As a result, it was not possible to determine whether department officials are using the correct or most up-to-date figures in the formula or whether the long-term care facilities are receiving the intended amount of reimbursement. In addition, the lack of documentation makes it difficult for department officials to justify and/or explain the reimbursement formula to either new employees or outside sources.

Since department officials could not provide formal documentation of how the reimbursement formula was developed and calculated, in the prior audit we recommended all components in the formula be rebased and recalculated for future use. The audit report recommended development of updated components should be documented so the department, long-term care facilities, and outside sources can review the reasonableness and accuracy of the base components. We also recommended all the formula components should be periodically reviewed and updated as economic and other conditions changed. In response to the recommendation, the department indicated it would consider rebasing the operating rate in the future. Department officials agreed to completely document formula development changes should they occur. At the time, the officials indicated they had begun the process to evaluate and update formula components.

In our latest review we found the formula had not been changed. A department official said all components in the Medicaid nursing home reimbursement formula will be reviewed and analyzed in the near future. The official said the department intends to document formula development and changes, and to periodically review and update the formula and its components.

RECOMMENDATION #39-13

WE RECOMMEND THE DEPARTMENT:

A. PERIODICALLY REVIEW ALL COMPONENTS IN THE REIMBURSEMENT FORMULA.

B. DOCUMENT REIMBURSEMENT FORMULA DEVELOPMENT AND CHANGES.

RESPONSE #39-13

A. Concur. Several changes were made to the formula during the most recent rate setting process. Most changes were annual updates to the area wage adjustment, inflation factors, average nursing care hourly wage, patient assessment scores, statewide average patient assessment score and the licensed staff compensation ratio. The "band" in the operating rate formula was narrowed which accounted for a major revision in the system. The other components were also reviewed and maintained pending further research.

All components in the system, including the patient day and fixed costs parameters are currently under review as part of a joint Department-provider study group organized by the Department.

Current Status: Nursing Home Task Force currently reviewing all of the above factors.

Estimated Completion: April 1989

B. Concur. The Department will document formula development and changes, and periodically review and update the formula and its components.

Current Status: Formula currently under review. Documentation ongoing as the project progresses.

Estimated Completion: April 1989

39-14. Excess Inventory

(CFDA #10.551)

Our testing of food stamp inventories indicated that inventories at two of five counties tested exceeded the levels specified by federal regulations. Federal regulations state that "inventory levels at coupon issuers and bulk storage points should not exceed a 6 month supply." We observed excessive inventories ranging from 6.26 months supply of certain denominations of coupons to more than 9.75 months supply of other denominations.

Federal regulations also require state agencies to monitor the coupon inventories of the coupon issuers to ensure inventories are at proper levels and are not in excess of the reasonable needs of coupon issuers. A department official indicated the department's audit procedures currently test for the appropriateness of the inventory level. The official indicated the department will continue to test the inventory level during issuance office

examinations. The official said the department will send a letter to all issuance offices reminding them of this regulation.

The department maintains issuance and inventory records for all counties which issue food stamps. As an additional control, department personnel could periodically review county inventory balances using SRS inventory records to determine whether inventories are maintained in accordance with federal regulations.

RECOMMENDATION #39-14

WE RECOMMEND THE DEPARTMENT ENSURE FOOD STAMP INVENTORY LEVELS AT THE COUNTIES ARE MAINTAINED IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE #39-14

Concur. The Department will do annual desk reviews of each issuance location to ensure adequate levels of inventory stay within acceptable federal levels.

This recommendation has been implemented. Each of the three locations tested and found to have had an excess level of food stamp inventory has received notification from the Department in writing dated November 4, 1987 along with issuance manual instructions for ordering and maintaining acceptable levels of food stamps.

Current Status: Completed November 4, 1987

39-15. Food Stamp and ATP Card Security

(CFDA #10.551)

Federal regulations and SRS directives require that Authorization to Participate (ATP) cards be distributed to the household (hand-delivered or by direct mail issuance) and, in turn, surrendered to the issuing agent when the individual receives the food stamps. This procedure prevents the issuing agent from having control of both the food stamps and the authorization to issue the stamps. Federal regulations also require the department to establish an issuance and accountability system to ensure that only certified households receive benefits. In two of four counties where we tested internal control over food stamps and ATP cards, we observed ATP cards are stored along with

food stamps. This procedure could allow an issuing agent to improperly obtain food stamps without being detected.

In one county we found the supply of ATP cards stored in an open safe which was located in a hallway accessible to employees and the general public. The department is required by federal regulations to ensure ATP cards are maintained in secure storage and that the cards are accessible to only authorized personnel. Since ATP cards may be used by unauthorized individuals to improperly obtain food stamps, it is important to maintain adequate security over card storage. Adequate security of ATP cards was a concern discussed in our prior department audit.

RECOMMENDATION #39-15

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH PROCEDURES TO ENSURE ATP CARDS ARE NOT STORED IN THE SAME LOCATION AS FOOD STAMPS.

B. ESTABLISH PROCEDURES TO ENSURE ACCESS TO ATP CARDS IS LIMITED TO ONLY AUTHORIZED INDIVIDUALS.

RESPONSE #39-15

A. Concur. The Department has sent written notice along with issuance manual instructions to all counties instructing them on security of ATP card stock and food stamps, not storing them in the same location and liability for negligence.

A letter was sent to all counties February 16, 1988.

Current Status: Completed February 16, 1988

B. Concur. Concurrently, the Department has notified all county offices handling ATP card stock by letter and attached issuance manual instructions for safeguarding blank stock from unauthorized personnel.

A letter was sent to all counties February 16, 1988.

Current Status: Completed February 16, 1988

39-16. Record Keeping

(CFDA #10.550)

The department maintains two separate inventory systems for food commodity inventories which it receives from the federal government. One inventory system is maintained on a computer while the other is a manual inventory system. Department personnel indicated two systems are maintained because the computer system is not reliable. If one of the inventory systems is not reliable the system should be repaired, replaced, or eliminated. The department should experience a cost savings in terms of personnel utilization if one food commodity inventory system was used. Personnel could be made available for other essential projects or activities. One properly working inventory system should be sufficient to meet the department's food commodity accounting needs.

In addition to maintaining duplicate records, our inventory testing indicated department personnel are not updating the inventory records with the value of commodity items when new food shipments are received. Of 10 commodity items we tested 8 were not properly valued.

Commodity inventories should be valued at the fair market value established at the date the commodities are received by the department. For each shipment of commodities received by the department, the federal government provides a price list for each of the commodities. The values contained on the list could be used by the department to estimate the fair market value of commodities. It is important that the department properly value its commodity inventory because the amounts are used to calculate the amount of commodity expenditures reported to the federal government.

RECOMMENDATION #39-16

WE RECOMMEND THE DEPARTMENT:

A. MAINTAIN ONLY ONE FOOD COMMODITY INVENTORY RECORD KEEPING SYSTEM.

B. ESTABLISH PROCEDURES TO ENSURE VALUES FOR THE FOOD COMMODITY INVENTORY ARE PROPERLY UPDATED.

RESPONSE #39-16

A. Concur. Although the present computerized system serves the management function well by ensuring that supplies shipped to agencies are within their allotments, it needs to be repaired or replaced with one that more accurately maintains an inventory system.

The Department will be investigating that possibility within the next year.

Current Status: An alternate system is currently being reviewed by the Department of Administration.

Estimated Completion: FY89 year end

B. Partially concur. The Department will ensure that values of commodity inventories reported to the federal government will be accurate. However,the Department wishes to use the same method that the federal government requires, which is to value commodities at year's end by the most recent shipment received.

Current Status: Completed

39-17. Food Commodity Distributions

(CFDA #10.550)

The department does not have a procedure requiring an individual to approve food commodity requisitions for distributions from the state's warehouse. Federal regulations require the department maintain an adequate system of internal control over food commodity distributions. Since the department does not require an authorized employee to take responsibility for approving warehouse distributions by signing food requisitions, a weakness in the department's system of internal control exists.

A department official indicated approval of a food commodity requisition occurs when department employees put a sequential number on the requisition. The official indicated since all requisitions are logged in at the warehouse, personnel at the warehouse would detect fictitious requisitions if the requisition number is not in the proper sequence. We agree that posting of a requisition number on the document does act to strengthen internal control. However, if the person who does the posting, also signs the document indicating he determined the food distributions are being made to eligible

organizations and the quantities requested are reasonable, the system of internal control will be enhanced.

RECOMMENDATION #39-17

WE RECOMMEND THE DEPARTMENT REQUIRE SIGNATURE APPROVAL OF FOOD COMMODITY REQUISITIONS.

RESPONSE #39-17

Concur. This recommendation is currently in effect.

Current Status: Completed

39-18. Expired Food Commodity Contracts

(CFDA #10.550)

The department has not maintained up-to-date contracts with all food commodity subrecipients. On a list prepared by the department we noted 13 of 137 subrecipient contracts were expired at June 1, 1987. Some contracts had been expired for as long as 1.5 years. At the time of our review, department personnel were unaware that the contracts had expired and were continuing to distribute commodities to the subrecipients.

The department uses the contracts as the internal control to ensure food distributions are only distributed to eligible subrecipients. Without a valid contract the department cannot ensure subrecipients continue to be eligible and they use the food commodities as provided for in the federal regulations.

A department official said a list of food commodity contracts is maintained on a micro-computer. He said the list does not contain all subrecipient contracts, so the department personnel did not use the microcomputer to ensure all subrecipient contracts are renewed before the previous agreement expired.

RECOMMENDATION #39-18

WE RECOMMEND THE DEPARTMENT MAINTAIN VALID CONTRACTS FOR SUBRECIPIENTS RECEIVING FOOD COMMODITY DISTRIBUTIONS.

RESPONSE #39-18

Concur. This recommendation is currently in effect.

Current Status: Completed

39-19. Medicaid Expenditures

(CFDA #13.714)

The department did not record all of its Medicaid expenditures for eligible services provided by the Department of Institutions (D of I) during fiscal year 1986-87. At fiscal year-end 1986-87, the department found it had underestimated its appropriation requirement for the D of I Medicaid reimbursement. Since the 1987 Legislative Session had ended, the department could not obtain a supplemental appropriation for the underestimated amount. In an effort to reimburse the General Fund for all eligible Medicaid expenditures at D of I, SRS officials decided to record the expenditures against the fiscal year 1987-88 appropriation and seek a supplemental appropriation during the next legislative session, if necessary. State law and generally accepted accounting principles require that expenditures be recorded in the year in which the obligation is incurred. Since D of I spent General Fund money to provide services to Medicaid eligible persons in fiscal year 1986-87, SRS had a valid obligation to reimburse the General Fund in the same year.

SRS could have avoided the accounting error and complied with the law by obtaining a budget amendment to transfer the federal portion of the reimbursement to D of I in fiscal year 1986-87. Since D of I spent General Fund money to provide the eligible services, the General Fund match of the Medicaid reimbursement has already been spent. All that remains is for SRS to transfer the federal share to D of I. SRS could provide a long term solution to this problem by requesting that the legislature appropriate only the federal portion of the medicaid reimbursement at SRS, and require that each state institution provide the appropriate General Fund match.

If the department had recorded its medicaid expenditures in the proper year, the department would have overspent its General and Special Revenue Fund appropriation authority. Also, because these federal reimbursement funds were not recorded by D of I in the General Fund as required by state law, the

state's General Fund balance is understated by $531,687 at fiscal year-end 1986-87.

RECOMMENDATION #39-19

WE RECOMMEND THE DEPARTMENT:

A. RECORD EXPENDITURES IN THE YEAR IN WHICH OBLIGATIONS ARE INCURRED.

B. WORK WITH THE OFFICE OF BUDGET AND PROGRAM PLANNING TO OBTAIN A BUDGET AMENDMENT AND CORRECT THE STATE'S ACCOUNTING RECORDS.

C. CONSIDER REQUESTING THAT THE LEGISLATURE APPROPRIATE THE GENERAL FUND MATCH AT EACH STATE INSTITUTION FOR ELIGIBLE MEDICAID SERVICES.

RESPONSE #39-19

A. Concur. A budget amendment or supplemental appropriation, if necessary, will be requested for fiscal year 1987 so that costs can be recorded in the proper year.

Current Status: Completed June 1988

B. Concur. Initial contact has already been made with OBPP. A series of prior year budget amendments transferring appropriation balances to Medicaid currently appears to be a possible solution. We expect resolution by June 30, 1988.

Current Status: Completed June 1988

C. Concur. We are considering a change in the way the General Fund match would be made for institutional Medicaid reimbursement. There are problems of increased workload, federal reporting, and generally accepted accounting principles that need to be resolved before the change can be made. If these problems cannot be solved, we will, at a minimum, change our process to one of transfer appropriations as recommended on page 32 of this (87-16) audit report. A decision will be made before the budget request is submitted September 1, 1988.

Current Status: As recommended, SRS budget request will include only federal funds share for institutional reimbursement.

39-20. Fund Balances

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

Two of the department's Federal Special Revenue Funds did not have a zero fund balance at fiscal year-end during both years of our audit. The accounting entities are used by the department to account for its federal public welfare grants. According to state accounting policy, the fund balance in these entities should be zero by fiscal year-end because federal revenues must equal expenditures. The following schedule shows the fund balances reported by the two accounting entities during each fiscal year of our audit.

Accounting Entity Number	Accounting Entity Name	Fiscal Year 1985-86 Fund Balance	Fiscal Year 1986-87 Fund Balance
03039	Public Welfare	$(2,437,133)	$(7,454,207)
03042	Public Welfare Grant	347,048	159,407

A department official indicated that $4,161,194 of the $7,454,207 negative fund balance was caused by an accounting error at fiscal year-end 1986-87 which reduced fund balance but should have increased receivables from the federal government. The official said the department will analyze its accounting records for past years and correct the balances in the entities. Since the department has not yet identified the errors, we were unable to determine the dollar effect or whether assets, liabilities, or nominal activity on the accounting records are misstated.

RECOMMENDATION #39-20

WE RECOMMEND THE DEPARTMENT ANALYZE AND CORRECT THE ACCOUNT BALANCES IN THE FEDERAL SPECIAL REVENUE FUND.

RESPONSE #39-20

Concur. The Department is working on the analysis. The analysis will be completed and corrections made by fiscal year end 1988.

Estimated Completion: October 1988. The review and necessary corrections were partially completed for June 30, 1988 fiscal year end.

39-21.Support for Transactions

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

The department routinely makes entries to the Statewide Budgeting and Accounting System (SBAS) using journal vouchers. These documents are used to satisfy many miscellaneous and special financial transaction needs, such as making corrections and adjustments to previously established amounts.

During our audit of SRS, we found three journal vouchers totalling $2,345,191 submitted during fiscal year 1985-86 which did not have adequate documentation to support the transaction. Since the person who prepared the journal vouchers is no longer employed by the department, we were unable to determine if the transactions were reasonable and proper. This concern was also addressed in the prior audit of the department.

Management Memo 2-79-8 requires "every SBAS document in the agency's file shall be properly and adequately supported." For instance, if a transaction moves an expenditure from one appropriation to another, there should be documentation to explain why the appropriation was changed.

A department official indicated the failure of the department to provide adequate support for some journal vouchers occurred in fiscal year 1985-86. The official said all fiscal year 1986-87 journal vouchers were supported. In our testing of fiscal year 1986-87 transactions, we found no examples of unsupported journal vouchers.

RECOMMENDATION #39-21

WE RECOMMEND THE DEPARTMENT CONTINUE TO PROVIDE ADEQUATE SUPPORT DOCUMENTATION FOR ALL SBAS TRANSACTIONS.

RESPONSE #39-21

Concur. It is the policy of the Department to have support for all SBAS transactions.

Current Status: Completed

39-22.Other Accounting Procedures

(CFDA #13.780, 10.561, 13.714)

Our audit disclosed the improper application of accounting procedures in five other instances discussed below. In each instance, the department did not apply accounting procedures in accordance with state policy.

1. The department did not record federal grant revenue for two grants in the proper year. State accounting policy requires that grant revenue be recognized in the same year the related expenditures are recorded. Expenditures amounting to $313,441 for the Aid to Families with Dependent Children (AFDC) grant were recorded in fiscal year 1985-86, but the related revenue was recorded in fiscal year 1986-87. Expenditures amounting to $80,349 for the Job Search Grant were recorded in fiscal year 1986-87, but the related revenue was recorded in fiscal year 1987-88.

2. In fiscal year 1986-87, the department improperly recognized $1,060,434 of current year revenue as a prior year revenue adjustment. The moneys were received by the department from the Medicaid program for containing costs for the three federal fiscal years prior to October 1984. State accounting policy requires the recognition of revenue in the year it becomes both measurable and available. Since the federal cost containment award was not available until fiscal year 1986-87, it should have been recorded as revenue rather than prior year revenue.

3. In fiscal year 1986-87, the department improperly established an accounts receivable for child support payments it had not yet paid to recipients. The department should have recorded an accounts payable rather than a receivable. As a result, revenue and accounts receivable were overstated on the state's accounting records by $58,300 and $29,150, respectively in the Special Revenue Fund. Accounts payable was also understated by $29,150. In the General Fund, revenue and accounts receivable were also overstated by $25,700 and $12,850, respectively. General Fund accounts payable were understated by $12,850.

4. The department erroneously did not bill a county for the county's share of certain operating expenses amounting to $3,440. Consequently, revenue and accounts receivable were understated by $3,440 on the accounting records. The department has now adjusted the county billings to correct the error.

5. The department improperly records an expenditure for Medicaid reimbursements in the General Fund that it transfers to the Department of Institutions. Because the moneys are transferred from one state department to another, the transaction should be recorded as a transfer out rather than an expenditure at SRS. As a result, transfers-out are understated and expenditures are overstated on the state's accounting records by $3,826,020 in fiscal year 1985-86 and $3,930,868 in fiscal year 1986-87.

Department officials indicate the concerns noted above were caused by accounting errors and misinterpretation of state accounting policy. They indicated the accounting records have already been adjusted as necessary.

RECOMMENDATION #39-22

WE RECOMMEND THE DEPARTMENT PROPERLY RECORD TRANSACTIONS IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE #39-22

Concur. As stated in the report the accounting records have been adjusted for the accounting errors.

The Department is considering several alternatives for the recording of General Fund Institution Medicaid payments - one alternative is the transfer-out method. A decision will be made by September 1, 1988.

Current Status: As recommended SRS' budget request will include only federal fund share for institutional reimbursement.

39-23. Access Controls

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

The department maintains essential data on recipients who receive benefit payments on its EDP system. Such payments are made from the state General Fund and the Federal Special Revenue Fund. Benefit payments exceed $150 million each year. Computer access controls help prevent deliberate or accidental use or manipulation of the data files. The department uses security identification codes (IDs) and passwords to restrict access to sensitive computer files. Passwords should be changed periodically, and security IDs should be suspended when an employee terminates employment, to maintain an acceptable level of security over the EDP system.

An internal memo prepared by a department EDP specialist recommended the department change all existing passwords on one of SRS's database systems and establish guidelines for periodic changes in the future. The memo, resulting from a prior audit recommendation, stated some passwords have not

been changed since 1982. A department official indicated the recommendation contained in the memorandum was not implemented because of the workload, because the Department of Administration has not yet fully implemented the state's security software, and because the person who prepared the recommendation is no longer employed by the department.

Other access control weaknesses observed during the audit are as follows:

1. The Data Processing Bureau sometimes assigns blanket security IDs or passwords to other bureaus for use by all authorized personnel within the bureaus. Each user of certain EDP systems should have their own user ID or password which can be cancelled when that individual changes jobs and no longer requires access to the system.

2. We noted that two users of EDP systems have more access to computer files than their jobs require. These users only need access to read what is contained in the files, while their ID also allows them access to change the data. Users of the EDP system should be only permitted the minimum level of access required by their particular job.

3. Our testing identified one individual whose access to the computer system was not cancelled for three months after he terminated employment with the department. The department should cancel security IDs or passwords for terminated employees immediately upon termination. The department's personnel office distributes a biweekly list of all SRS terminated employees that may help identify the individuals whose access should be cancelled.

The department should establish a written security ID and password policy. The policy should include provisions to periodically change passwords. It should provide for individual security IDs rather than using blanket IDs. And the policy should include a periodic review to determine whether personnel have the minimum level of access to computer files as dictated by their job.

<u>RECOMMENDATION #39-23</u>

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH A WRITTEN SECURITY ID AND PASSWORD POLICY.

B. PERIODICALLY CHANGE PASSWORDS.

C. ASSIGN INDIVIDUAL SECURITY IDs RATHER THAN USING BLANKET IDs.

D. PERIODICALLY REVIEW THE APPROPRIATENESS OF INDIVIDUAL LEVELS OF ACCESS.

RESPONSE #39-23

A. Concur. The Department will develop written policies and procedures for security IDs, passwords and review rules for data access by July 1, 1988.

Current Status: Development of policy in progress.

Estimated Completion: January 1, 1989

B. Concur. The Department will change all existing passwords on an annual basis. Additional password capabilities for existing systems will be implemented when the Department of Administration upgrades the state's security software in the fall of 1988.

Current Status: Development of policy in progress.

Estimated Completion: January 1, 1989

C. Concur. Individual TSO (Time Sharing Option) security IDs rather than blanket security IDs will be assigned. Blanket security IDs will be used until the Department of Administration upgrades the state's security software in the fall of 1988. At that time, blanket security IDs will be replaced by individual security IDs.

Current Status: Waiting for software from Department of Administration.

Estimated Completion: November 1, 1988

D. Concur. The Department will review levels of access to data on an annual basis.

Current Status: Completed June 1988

39-24. Output Controls

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

Some reports printed at the department's request by the state's computer are confidential documents; however, the department has not established procedures to ensure the confidentiality of the reports. We noted two instances where the job operating instructions for computer generated reports specify:

"it is imperative that the output from this job be delivered to authorized personnel only (i.e., EAD). Printed reports must be handled in strictest confidence." "The contents of this file are confidential and this confidentiality is protected by law."

A department official said the department receives other data from the Department of Administration Information Services Division (ISD) that he would consider sensitive or confidential.

We observed two output control weaknesses which could allow sensitive or confidential information to be lost or stolen.

1. The department is assigned an output box at the Department of Administration ISD where SRS personnel pick up the computer output. The box can be locked to ensure only authorized SRS personnel have access to the computer output. We observed the output box is normally unlocked.

2. A department official said computer output, including confidential reports which are picked up from the box by SRS personnel, is delivered to open shelves at SRS in a room with access available to many employees. We observed the department does not have controls in place to ensure that only authorized personnel access the room containing the confidential or sensitive information.

Department computer personnel indicated that tightening control over computer output would be time consuming. We believe it is essential that the department protect the confidentiality of the sensitive information contained on the computer.

RECOMMENDATION #39-24

WE RECOMMEND THE DEPARTMENT:

A. LOCK THE OUTPUT BOX LOCATED AT INFORMATION SERVICES DIVISION.

B. ESTABLISH A MORE SECURE SYSTEM FOR DISTRIBUTING SENSITIVE COMPUTER OUTPUT.

RESPONSE #39-24

A. Concur. The Department, effective March 14, 1988, will lock the SRS box at the Department of Administration, Information Services Division, to ensure only authorized personnel have access to computer output.

Current Status: Completed August 1, 1988

B. Concur. The Department will establish, by April 1, 1988, an improved system for protection and distribution of computer output from the computer operations area. Only authorized personnel have access to the computer room and confidential data will not be distributed on open shelves.

Current Status: Completed August 1, 1988

39-25. Processing Controls

(CFDA #13.789)

The department has established EDP processing controls to help ensure that Low Income Energy Assistance Program (LIEAP) benefit payments are only made on behalf of eligible individuals. The department spends approximately $10 million annually for the LIEAP program. A key ingredient in the department's EDP processing controls are edits which compare input data against specified criteria to determine whether the input is correct.

Our tests indicated the edits used in the LIEAP EDP system did not include comparison of the benefits amount input to the benefit payment system to the benefit matrix amount. The benefit matrix is used by department personnel to help calculate the benefit amount due an individual. The matrix amount is based on the number of bedrooms in the recipient's home, the type of fuel used for heat, whether the home is a single family unit, multi-family unit or a mobile home, and where the home is located in the state. The edit could identify a difference between the computer calculated matrix amount and the matrix amount listed on the LIEAP application. Department personnel believed this edit was included in the EDP processing controls but our tests indicated the edit was not working.

Another system edit which is used to test whether the recipient's income is less than 125 percent of the poverty level was not working as department personnel had expected. A section on the LIEAP application form completed by department personnel asks whether the recipient income amount is less than 125 percent of the poverty level. The edit tests whether the Yes or No question on the application is answered correctly, because when the recipient's income is greater than 125 percent of the poverty level the recipient is not

eligible for LIEAP benefits. We noted when this section of the application is not completed the system does not produce an exception on the systems' edit listing.

Other edits which are not included in the LIEAP processing controls and which we believe could help enhance controls over benefit payments include edits to determine whether:

1. Emergency benefit awards are greater than $250. Two hundred and fifty dollars is the maximum authorized emergency benefit award;

2. The recipient's income considering his family size is greater than 50 percent of the poverty level when recipients receive supplemental awards. If the recipient's income is greater than 50 percent of the poverty level, the individual is not eligible for supplemental awards;

3. The benefit award is properly calculated considering the applicant's income and family size, and the matrix award amount; and

4. The number of bedrooms listed on the application exceeds the number of members of the house. The number of bedrooms used in determining the matrix amount cannot exceed the number of persons in the household.

Department personnel indicated no problems with the edits were noted in prior testing of the system. The official said the department has corrected the two edits which were not functioning as expected and the department will evaluate the cost/benefit of implementing the other edits.

RECOMMENDATION #39-25

WE RECOMMEND THE DEPARTMENT:

A. REVIEW AND TEST THE EDITS OF THE LIEAP PROCESSING SYSTEM TO ENSURE THE EDITS ARE PROPERLY FUNCTIONING.

B. ESTABLISH ADDITIONAL EDITS WHICH COULD ENSURE BENEFITS ARE PAID ONLY TO ELIGIBLE RECIPIENTS IN PROPER AMOUNTS.

RESPONSE #39-25

A. Concur. Edits in the LIEAP system were reviewed and improved in October 1987 during the start-up process for the current winter season and were found to be functioning properly. This includes edits verifying that input data is correct, comparison of input benefits to the 125 percent of poverty level and determination if supplementary benefit awards exceed $250.

Current Status: Completed

B. Concur, conditionally. The Department will determine by October 1988 those additional edits to ensure that benefits are properly paid to eligible recipients. Suggested edits relative to recipient income and number of bedrooms in the household may be implemented depending upon need, cost and program policy.

Current Status: No change

Estimated Completion: October 1988

39-26. Equipment Inventory Controls

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

An acceptable system of internal control over equipment ensures that all equipment belonging to an agency is tagged for identification and properly recorded on the inventory records. A periodic physical inventory would enable the agency to check the accuracy of the records and confirm the location and existence of its equipment. As of March 1987, the department had not recorded any additions or deletions to the equipment inventory since fiscal year 1984-85. The department had not taken a physical inventory of equipment for two years.

State policy requires that:

1. Agencies perform a physical inventory every two years for items properly recorded on a perpetual inventory system;

2. All equipment with value greater than or equal to $200 be recorded on the accounting records and tagged with a unique property number; and

3. Equipment records include location of equipment.

We tested equipment records for a judgmental sample of 45 items which were purchased by the department prior to 1977. The sample consisted of equipment identified in department records as currently being used at the SRS Helena facility. Of the 45 equipment items tested, 11 could not be found by department personnel. Another five equipment items tested were found in

storage and were not intended for future use by the department. These items should have been surplused through the Property and Supply Bureau at the Department of Administration.

In April 1987, after we expressed concern over equipment controls, the department started inventory update procedures. Department officials designated a property manager who requested listings of equipment inventories from each field location and conducted a physical inventory at the SRS Helena facility. The property manager began recording equipment purchased in fiscal years 1985-86 and 1986-87 on property accounting records. He began tagging equipment which was not tagged. Equipment which was no longer needed was transferred to storage and then surplused.

RECOMMENDATION #39-26

WE RECOMMEND THE DEPARTMENT:

A. RECORD ALL EQUIPMENT WITH A VALUE OF $200 OR MORE ON ITS PROPERTY RECORDS AND ENSURE THE ITEMS ARE PROPERLY TAGGED.

B. MAINTAIN ACCURATE RECORDS OF EQUIPMENT BY LOCATION.

C. CONDUCT A PHYSICAL INVENTORY OF EQUIPMENT AS REQUIRED BY STATE POLICY.

RESPONSE #39-26

A. Concur. Procedures were implemented in April 1987 to record and tag acquisitions on a current basis.

Current Status: Completed

B. Concur. Procedures were implemented to identify equipment by location on a current basis in April 1987.

Current Status: Completed

C. Concur. Physical inventory of equipment will be conducted in accordance with state policy guidelines.

Current Status: Procedures are in place to comply with state guidelines. Inventory is in progress.

Estimated Completion: December 1988

39-27. Funding Source

(This issue could affect all of the department's federal assistance. During the audit period, the department expended federal assistance received from the federal agencies listed at the beginning of issue 39-3.)

The department purchases most equipment with joint federal and state funding. The department's equipment inventory records do not track the funding source used to purchase its equipment. As a result, the department cannot identify the amount of federal dollars invested in specific items of equipment.

Federal regulations (Office of Management and Budget Circular A-102, Attachment N) require the department to track the source and amount of federal funds used to purchase equipment. Attachment N also requires the department to compensate the federal government for the federal share of equipment if the department disposes of equipment for more than $1,000.

According to agency personnel, the department's property accounting system previously contained the source of funding information for equipment purchases. However, a system revision deleted the source of funding information.

Department officials indicated the department can trace federal funding costs by contacting employees at the location using the equipment and having them identify the funding source. We believe the information on the department's property accounting system does not track the federal share of equipment purchases as required by federal regulations.

RECOMMENDATION #39-27

WE RECOMMEND THE DEPARTMENT TRACK THE FUNDING SOURCE OF EQUIPMENT ON ITS ACCOUNTING RECORDS.

RESPONSE #39-27

Concur. The Department's property accounting system procedures will be changed for fiscal year 1988 to identify asset acquisition funding source.

Current Status: Completed

39-28. Travel - Billings District Office

(CFDA #84.126)

We reviewed travel vouchers and leave requests submitted by supervisors, counselors, and secretarial staff at the Billings District Office of the Rehabilitative Services and Visual Services Division for fiscal year 1984-85, fiscal year 1985-86, and July 1986. We also interviewed the district office personnel, the chief of the Rehabilitative Services Bureau, and the division administrator concerning procedures followed for record keeping and completing forms. We noted the following items during our review:

1. There were 19 instances between July 1, 1985 and July 30, 1986 and 19 instances between July 1, 1984 and June 30, 1985 where, according to leave requests and travel vouchers, both local mileage and leave for the entire day were claimed on the same day.

2. Visual Services counselors maintain desk calendars which document their appointments and days off but Rehabilitative Services counselors do not.

3. None of the counselors received, at the beginning of their employment, any specific orientation as to what travel forms had to be completed, how to complete them, or what supporting documentation should be kept. We were informed by the bureau chief an Employee Training Guide has been developed but that it is not necessarily updated periodically or even used.

4. Travel vouchers are completed by Rehabilitative Services counselors primarily from memory at the end of the month. These counselors do not keep travel logs or odometer readings to support mileage claimed.

5. Counselors are unsure about who their immediate supervisor is as there have been frequent changes in the last year.

6. Because the Visual Services counselors keep calendars (item 2) we were able to identify apparent clerical errors on leave requests (item 1). We were told during several individual interviews that sometimes leave requests are not completed in time for payroll processing so the clerical staff will put the time off on a day in the subsequent pay period. Some counselors leave notes for the clerical staff which indicate the amount of leave taken in a pay period but not the dates the leave was taken.

7. We noted an inconsistency in the treatment of two travel vouchers involving similar circumstances. Both counselors involved received guidance from the same supervisor. The circumstances involved travel outside the Billings area with the counselors not returning

directly to Billings. The first travel voucher was completed as though the counselor had traveled from Billings to Clancy to Butte and back to Billings (3 days) when, in fact, the counselor drove from Butte to Helena to spend the weekend and then drove back to Billings. The second travel voucher claimed mileage from Billings to Kalispell but did not claim the return mileage. When we asked about this, the counselor stated that because he planned to spend a couple of days in Bozeman and not come directly back to Billings, his supervisor said he could not claim the return mileage.

8. Supervisors are uninformed as to the counselors' whereabouts and do not adequately review travel claims and leave requests. We noted several instances where travel claims and leave requests were signed by someone other than the employee for whom the forms were submitted. The same situation occurred with supervisory approvals.

9. Visual Services counselors admitted to inflating local mileage. However, personal gain was not their stated intent. If they have to purchase small items, e.g., light bulbs for magnifying glasses or diabetic syringes for their clients, they do so and inflate the mileage to cover the cost of the items. These purchases should be recorded as miscellaneous expenses on the travel vouchers.

10. We noted other instances of unusual leave records during our review. One employee's leave requests had time off for Christmas Day and Thanksgiving Day 1985. Another employee's leave hours totaled to 19; however, "20" was typed in the total column and that was the number of hours processed. There were two instances of 10 hours of leave taken in one day and one instance of 14 hours compensatory leave taken in one day. One employee took 72 hours of vacation but only had 71.53 hours available.

The concerns detailed above indicate internal controls over travel and leave are inadequate to prevent or detect errors or irregularities. There are limited underlying records to support travel expenditures incurred by the Rehabilitative Services Division - Billings District. Since the division receives federal funding, future funds could be jeopardized unless corrective action is taken. We believe internal controls can be strengthened with minimal difficulty and make the following recommendations.

RECOMMENDATION #39-28

WE RECOMMEND THE DEPARTMENT:

A. REQUIRE COUNSELORS TO KEEP TRAVEL LOGS DETAILING THE DATE, DESTINATION, ODOMETER READINGS, MILEAGE CLAIMED,

AND PERSON CONTACTED AND USE THE LOG TO COMPLETE TRAVEL VOUCHERS.

B. REQUIRE FIELD OFFICE PERSONNEL TO SUBMIT BIWEEKLY TIME SUMMARIES WHICH DETAIL DAYS WORKED AND DAYS OFF.

C. 1. PROVIDE FORMAL ORIENTATION TO NEW COUNSELORS AS TO PROCEDURES TO BE FOLLOWED AND FORMS TO BE USED AND, THROUGH ORIENTATION, EMPHASIZE THE IMPORTANCE OF REPORTING ACCURATE INFORMATION.

2. REVIEW THE POLICIES AND PROCEDURES WITH COUNSELORS PERIODICALLY.

D. PROVIDE TRAINING FOR SUPERVISORY PERSONNEL TO OUTLINE WHAT THEY ARE RESPONSIBLE FOR, HOW MUCH AUTHORITY THEY HAVE, AND TO WHOM THEY ARE ACCOUNTABLE.

E. REQUIRE THE INTERNAL AUDIT FUNCTION TO PERIODICALLY REVIEW FIELD OFFICE TRAVEL AND LEAVE PROCEDURES, EVALUATE THE USE PROCEDURES AGAINST DEPARTMENT POLICIES AND STATE LAWS AND REGULATIONS, AND RECOMMEND NECESSARY CHANGES TO THE FIELD OFFICE OR THE DEPARTMENT AS APPLICABLE.

RESPONSE #39-28

A. Concur. The Department implemented a new travel reimbursement system in fiscal year 1987.

Current Status: Completed

B. Concur. The field office personnel began submitting biweekly time summaries which detail days worked and days off in fiscal year 1987.

Current Status: Completed

C. 1. Concur. This was done during fiscal year 1987.

Current Status: Completed

2. Concur. This was done during fiscal year 1987.

Current Status: Completed

D. Concur. This was done during fiscal year 1987.

Current Status: Completed

E. Concur, conditionally. The SRS Audit Bureau exists to audit outside contracts with the Department. To adequately assume the recommended responsibility, we will need more FTEs or we will be able to audit fewer outside contracts. However, the SRS Personnel Unit, in cooperation with the SRS Fiscal Bureau, will periodically randomly review documentation against travel claims and leave records.

Current Status: Procedures are in place to accomplish periodic reviews.